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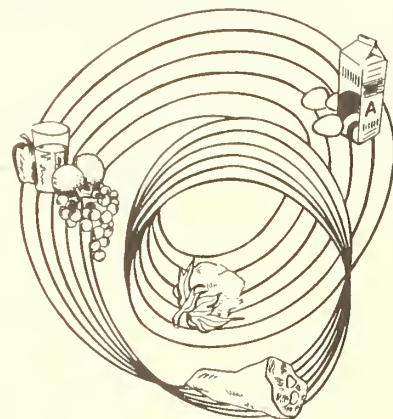
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Proceedings of
**WORKSHOP-SEMINAR ON MARKET
DEVELOPMENT AND PROMOTION
FOR AGRICULTURAL PRODUCTS**

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University of California
Berkeley, California
June 21-25, 1965

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Economic Research Service
U.S. DEPARTMENT OF AGRICULTURE

FOREWORD

This publication presents the proceedings of a 3-day national workshop and seminar on the promotion of agricultural products held at the University of California, Berkeley. This is the second workshop of its kind devoted specifically to the subject of promoting farm products. The workshop was conducted in response to the continuing interest in promotion among producer organizations, agricultural economists, and others concerned with maintaining and strengthening markets for farm products.

The purpose of the workshop was to provide for the exchange of ideas and information among representatives of commodity promotional groups, market researchers, and extension specialists as a means of furthering knowledge and understanding of this most complex area of marketing distribution.

The workshop was sponsored cooperatively by the Western Agricultural Economic Research Council; Market Development Branch, Marketing Economics Division, Economic Research Service, U.S. Department of Agriculture; the Cooperative Extension Service, USDA; and the Giannini Foundation of Agricultural Economics. Jimmie S. Hillman, University of Arizona, Peter L. Henderson, USDA, Olan D. Forker, University of California, Berkeley, and Chester E. Swank, USDA, were primarily responsible for program arrangements.

Peter L. Henderson
U.S. Department of Agriculture

Jimmie S. Hillman
University of Arizona

PROGRAM

Monday, June 21, 1965

Introduction--9:00 a.m.

Opening remarks: Jimmye S. Hillman
University of Arizona

Peter L. Henderson
U.S. Department of Agriculture
Washington, D.C.

Welcoming remarks: Maurice L. Peterson
University of California, Berkeley

Session I--9:15 a.m.

Chairman: Loy L. Sammet
University of California, Berkeley

Subject: "Present status, procedures and
practices of agricultural groups"

Speaker: Harper W. Boyd, Jr.
Stanford University

Subject: "The role of promotion and advertising
in marketing and their limitations in
the solution of agricultural problems"

Speaker: William S. Hoofnagle
U.S. Department of Agriculture
Washington, D.C.

Discussion panel: John O. Hickman
American Sheep Producers Council, Inc.

William Carroll Lamb
Florida Department of Agriculture

Paul T. Rowell
Oregon Department of Agriculture

Session II--1:15 p.m.

Chairman: Gerald G. Quackenbush
American Dairy Association

Subject: "The implication of market development
and promotion schemes for consumer
welfare and producer returns"

Speaker: Frank Scott, Jr.
University of Hawaii

Discussion panel:

S. Kent Christensen
National Association of Food Chains

Willis R. Hoard
Cling Peach Advisory Board

James E. Klahre
Diamond Fruit Growers, Inc.

Don W. McColly
Wine Institute, San Francisco

Social Hour--Banquet, 6:30 p.m.

Guest speaker:

Nathan M. Koffsky, Administrator
Economic Research Service, U.S.
Department of Agriculture, Washington,
D.C.

Tuesday, June 22, 1965

Session III--8:30 a.m.

Chairman:

Sharon Q. Hoobler
Federal Extension Service, U.S.
Department of Agriculture, Washington,
D.C.

Subject:

"Designing, planning and executing
promotion campaigns for agricultural
products"

Speaker:

Shelby Robert
Pet Milk Company

Discussion panel:

"Meat and livestock"--Arval Erikson,
Oscar Mayer and Co.

"Dairy products"--William Martin, the
Borden Company

"Processed foods"--John Tobias, Cali-
fornia Cannery and Growers Association

"Fresh foods"--Joe Brownlow, Washington
State Apple Commission

"Fiber crops"--Carlton Power, National
Cotton Council of America

Session IV--1:15 p.m.

Chairman:

Jean B. Wyckoff
University of Nevada

Subject: "Evaluating response to market
development and promotion programs
for agricultural products.

Speaker: Charles K. Ramond
Advertising Research Foundation

Discussion panel: Donald Bowsher
Spokane Chamber of Commerce

Peter McDonald
Guild, Bascom & Bonfigli, Inc.

Cecil Smith
University of Florida

Wednesday, June 23, 1965

Session V--8:30 a.m.

Chairman: D. Barton DeLoach
University of California, Davis

Subject: "Developing foreign markets for
United States farm products"

Speaker: Kenneth K. Krogh, Foreign Agricultural
Service, U.S. Department of Agri-
culture, Washington, D.C.

Discussion panel: Jed Adams
California Department of Agriculture

William Faught
Economic Research Service, U.S.
Department of Agriculture, Washington,
D.C.

A. William Jasper
American Farm Bureau Federation

Don McMillen
Sunkist Growers

Session VI--1:15 p.m.

Chairman: R. J. Hildreth
Farm Foundation, Chicago

Subject: "The role of public research, extension,
and market service agencies in market
development and agricultural promotion
programs"

Panel:
Research: Robert Branson
Texas A&M University

Extension:

Chester Swank
Federal Extension Service, U.S.
Department of Agriculture, Washington,
D.C.

Market Services:

Frank Bennett
California Department of Agriculture

Farm Organization,
Co-ops, etc.:

A. L. Buffington
Diamond Walnut Growers

Wrap-Up:

Burt Wood

Thursday and Friday, June 24-25, 1965

Session VII

Extension seminar for extension
personnel only

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Washington, D.C.

May 1966

The speeches in this report are reproduced as they were given. The views of the speakers are their own, and do not necessarily represent the opinions of the Economic Research Service of the U.S. Department of Agriculture. The use of trade names by the speakers does not constitute an endorsement of firms or products by the Department of Agriculture.

Berkeley, California

June 21-25, 1965

PROCEEDINGS OF WORKSHOP-SEMINAR ON
MARKET DEVELOPMENT AND PROMOTION
FOR AGRICULTURAL PRODUCTS

Sponsors:

The Western Agricultural Economic Research Council

The Market Development Branch, Marketing Economics Division, Economic Research
Service, U.S. Department of Agriculture

The Giannini Foundation of Agricultural Economics

Program planning committee:

Olan D. Forker, University of California, Berkeley

Peter L. Henderson, U.S. Department of Agriculture, Washington, D.C.

Jimmye S. Hillman, University of Arizona, Tucson--Chairman

Chester E. Swank, U.S. Department of Agriculture, Washington, D.C.

Present Status, Procedures, and Practices of Agricultural Promotion Groups

by

Harper W. Boyd, Jr., Professor of Marketing
Graduate School of Business, Stanford University

The promotional activities of agriculturally-oriented groups in the United States during 1962 are described in a study made in 1963 by the Market Development Branch, Marketing Economics Division, Economic Research Service, U.S. Department of Agriculture, conducted under the general direction of Dr. William S. Hoofnagle. The findings of this study have been published in a report prepared by Carl R. Twining and Peter L. Henderson. ^{1/} These two agricultural economists, who work in the Market Development Branch, were kind enough to release an advance copy of their report which has formed the basis for much of the following discussion.

Expenditures by Type of Promotional Group

About 2,300 groups were organized to carry out some type of promotional program in 1962. Of these, about 1,200 reported direct promotional expenditures. Among the 1,100 who reported no direct expenditures, 375 became indirectly involved in promotion by transferring funds to affiliated or parent organizations engaged in such activities.

Total promotional expenditures for the groups under study were estimated at \$86 million for the fiscal year ending in 1963. Voluntary producer-processor groups representing 36 percent of the total of all groups spent \$31 million, or 36 percent; cooperatives--both marketing and bargaining associations--represented 53 percent of the total of all groups and spent \$27 million, or about 31 percent; and expenditures made by commissions, boards, councils, and institutions, which in the aggregate represented only 11 percent of the total of all promotion groups, totaled \$27 million or 31 percent. The remaining expenditures were made by State departments of agriculture (\$1.6 million) and other groups which did not furnish sufficient information to be classified (\$1.5 million).

Geographical Scope and Nature of Program

National programs accounted for 66 percent of the total promotional expenditures. Regional programs accounted for 12 percent, and State and local programs for 19 percent. Selected metropolitan areas consumed 2.6 percent. Promotion of branded products accounted for 25 percent of the total, and these funds were expended mainly by the cooperatives. Some 55 percent of the promotional expenditures were devoted to a commodity approach. Voluntary producer groups were most active here, and such commodities as dairy products, milk, and wool were involved. The remainder--20

^{1/} Promotional Activities of Agricultural Groups. U.S. Dept. Agr., Mktg. Res. Rpt. 742, Dec. 1965.

percent--was accounted for by products which were identified by a State or an area brand such as Washington State apples, Georgia peaches, and Maine potatoes.

Some 30 percent of the promotional groups spend more than \$25,000 a year in promotion and accounted for more than 95 percent of total expenditures in 1962. Nearly half of the groups (47 percent) spent, individually, less than \$5,000 and, together, less than 1 percent of the total funds. Those groups spending in excess of \$100,000 annually made up 13 percent of all groups reporting and 85 percent of the total funds.

Type of Promotional Activities

Advertising was the leading type of promotional activity reported. It accounted for nearly \$39 million or 45 percent of total expenditures. Merchandising was second with \$17.7 million or 20 percent, public relations and consumer education took 17 percent, administration took about 12 percent, and 5.5 percent was unidentified.

Of the amount spent for media advertising, magazines accounted for 27 percent, newspapers 21 percent, television 16 percent, radio 12 percent, outdoor advertising allowances 10 percent, and the remainder (signs, stockers, tags, etc.) 14 percent. Of the \$17.7 million spent for merchandising aids, nearly 85 percent was used for point-of-purchase materials, dealer service, and dealer contests. Nearly half of the \$14.5 million spent for public relations and consumer education went for home economists, exhibitions, and demonstrations. Some 41 percent was spent on such miscellaneous activities as film, calendars, community projects, information sheets, and novelties (e.g. pencils).

Administrative costs were heavy. The largest groups (over \$500,000 annually) spent less than 10 percent of their promotional funds for such activities, and the smaller groups (between \$25,000 and \$100,000 annually) spent 18.8 percent.

Products Promoted and Type of Activity

Over 60 percent of all promotional expenditures went for fruits (34 percent) and dairy products (27 percent). Natural fibers, meat, vegetables, poultry and eggs, and field crops each received between 3 and 7 percent of total expenditures. Groups which operate under enabling legislation--commissions, boards, and councils--spent 50 percent of the promotional funds devoted to fruit products, and co-operatives spent 34 percent. Over 50 percent of the dairy expenditures came from voluntary groups. Meat, field crops, and natural fibers received most of their support from voluntary groups while poultry and eggs received most of their support from cooperatives. Half of the groups reported that their products were promoted in fresh form.

Sources of Funds

Farmer-producers were the major source of total funds (47 percent). Sales receipts representing deductions from producer returns accounted for \$23 million. If the sales receipts of cooperatives are included with producers' contributions,

the total approximates \$63 million or 74 percent of total promotional expenditures. Processors, shippers, and other marketing agents contributed nearly \$20 million (22 percent).

Promotion Research

More than \$2 million was spent for marketing research (2 1/2 percent of the total promotional expenditures). Voluntary groups showed the greatest interest in such research and accounted for about half of the total promotion research funds. Cooperatives and commissions together spent about as much as the voluntaries and State departments of agriculture spent an insignificant amount.

Trends

Between 1958 and 1962, total promotional expenditures increased 29 percent, while the number of organizations involved increased by only 3.5 percent. Commissions showed the largest gains in "spending." Cooperatives made only a small gain. National programs received very large increases in expenditures as did selected metropolitan areas--both at the expense of regional, State, and local programs. A slightly smaller share of the total was spent on advertising in 1962 than in 1958 and merchandising received a higher share.

Procedures and Practices of Agricultural Promotion Groups

The unfavorable criticism implied in the ensuing discussion of the procedures and practices of agricultural promotion groups is not unintentional. But criticism is easy in evaluating promotional decision-making whether the groups involved are agricultural or large consumer-goods producers who spend millions on promotion each year. The conclusion is unavoidable that both groups lack sophistication in dealing with the many and varied problems which are encountered in conceiving and executing promotion.^{2/}

The problems of promoting agricultural products are compounded by the following obstacles--to mention a few of the more important:

1. Most of the promotional groups are small and are controlled or influenced by individuals who have little, if any, skill in either marketing or promotion.
2. Many of these groups have little or no control over the other activities of the group which precede promotion, that is, product and product line (including packaging and branding), channels of distribution, personal selling, pricing, etc. Thus, an unnecessary burden is placed upon advertising in its maintenance or increase of sales.
3. Most agricultural products are in a state of maturity which makes product innovation difficult.

^{2/} For a factual report on the state of the arts in promotional decision-making, see Patrick J. Robinson and David J. Luck, *Promotional Decision Making: Practice and Theory*, New York: McGraw-Hill Book Co., Inc., 1964.

4. The rise in discretionary income has meant that farm products do and will receive greater competition from nonfarm products. An industry group can be likened to a business firm in that inevitably it must compete not only against other industry groups selling farm products, but against a whole host of nonfarm industries all of which are attempting to manipulate the consumer in some way.

Much of the remainder of this discussion is based on information obtained from a study made under contract with the U.S. Department of Agriculture by the School of Business Administration, Northwestern University, in 1961.^{3/} Although now several years old, the general conclusions are still valid.

Setting Promotional Objectives

Objectives--goals--are an essential part of the administrative process. Without them, no group can formulate an action plan or measure results. Yet agricultural promotional groups--not unlike their associates elsewhere--seem to question the desirability of setting promotional goals. Moreover, even when they set such goals, they are often so general as to be worthless. Almost totally lacking is the notion that products are not important per se but because they play a role in helping a consumer to "solve" some problem or to "satisfy" some need. Failure to understand this goal as well as the consumption systems in operation severely limits the definition of meaningful promotional objectives. There is little to suggest that such understanding exists or that any serious efforts are being made by most groups to obtain the data required for such understanding.

Surprisingly enough, few groups appear to have grasped the concept of market segmentation in any realistic way. Without some specification of target groups, the preparation of advertising copy and the selection of media cannot be effectively carried out. Certainly, the efficient encoding and decoding of messages relies on a common set of symbols (messages) which can only be "discovered" if the message sender knows who the receiver is and is familiar with his or her field of experience relative to the product and its use.

Promotion works best with or through mediating factors; i.e., when it reinforces existing attitudes or behavior or stimulates people who are already disposed to act in a desired manner. This raises a number of vital issues which are tied to promotional objectives. First, what is the role of advertising when demand for a commodity is declining? Second, which segments are predisposed? Which are not predisposed? And, third, assuming the use of promotion, what are the mediating factors through which to work? It is highly doubtful that the promotional groups under discussion even raise these questions, let alone frame answers in such a way that they serve as useful objectives.

Goal-setting also necessitates an understanding of the industry's structure and what competition is doing. In addition, goals and resources must be compatible. Too often, it was found that the resources available were ridiculously inadequate in view of the goals inferred from the copy and media being used.

^{3/} Advertising Procedures and Practices of Agricultural Commodity Promotion Groups. U.S. Dept. Agr., Mktg. Res. Rpt. 567, 1962.

In the development of copy appeals, the groups or their agencies evidently do not attempt to develop appeals in any systematic fashion. Nor is much testing done to check out the copy once it is developed. Only a very limited number of groups do much research on these and related communication problems; witness the relatively small sum being spent on research--about \$2 million in 1962.

The client-advertising agency relationship for these groups appears muddled. Considerable evidence suggests that the advertising process is highly informal and that too much reliance is placed on the agency to develop, implement, and appraise advertising policies and procedures. The agencies feel that they have serious problems in handling these groups. They include the following:

1. The difficulty of arriving at decisions and maintaining contacts because of the number of people involved and because of the bureaucratic structure of some of the groups.
2. The lack of knowledge about marketing and advertising on the part of administrative personnel in the group.
3. The need to justify advertising expenditures to various advisory committees within the group.
4. Lack of budget continuity as well as too many emergencies.
5. Poorly defined sales objectives.
6. The inability in many cases to integrate advertising with other elements in the marketing mix.

Summary and Conclusions

The criticisms leveled here at the various groups promoting agricultural products are severe. But a comparison of the practices of these groups with those of other advertisers reveals their shortcomings to be scarcely unique. Promotion, as it is currently practiced, is neither a science nor a profession. A better and more sophisticated methodology, largely borrowed from the social sciences, is beginning to emerge, but it is doubtful that these new ideas will have impact for quite some time.

In the light of the studies reported here today, the question should be raised as to whether or not certain of the groups should even bother with promotion, in view of the magnitude of their task relative to resources. The small opportunity that producer promotion groups have to integrate their activities with other marketing strategies makes their assignment even more difficult.

All groups need to have a better understanding of advertising practices and procedures and the role of an advertising agency. In particular, these groups need to understand the importance of marketing and advertising research, especially in such areas as market segmentation, advertising appeals, and copy testing.

Discussion: Present Status, Procedures, and
Practices of Agricultural Promotion Groups

by

William Carroll Lamb
Florida Department of Agriculture

I feel Dr. Boyd's paper did an effective job of giving us an overall picture of agricultural promotion, statistically. No matter how the picture of agricultural promotion is painted, in my opinion, the fact stands out that we are far behind other industries in the field of advertising and promotion.

As Dr. Boyd pointed out, only \$86 million is spent annually for agricultural promotion compared with \$13 billion for other commodities. I feel this amount is much too small. For example, the advertising budget for one cereal company competing for the breakfast business would probably exceed greatly that of the total funds expended by egg promotion organizations.

According to the paper we are discussing, only \$1.6 million is spent by State departments of agriculture for promotion of agricultural commodities. This, in my opinion, should be much more. Even though our job as State departments of agriculture is not to promote but to help them promote, we cannot do much helping with this kind of budget. How can we convince them of the importance and necessity of promoting their product--unless we are willing to invest some funds ourselves to help them?

In the Florida Department of Agriculture we have a special section and funds earmarked for the specific purpose of assisting commodity groups in the age-old problem of "free riders."

The percentage of funds going into advertising is out of proportion. I'm afraid at times some agencies, and I repeat some agencies, might be more interested in the 15 percent commission than anything else, as it is easier to put most of the funds into advertising. Of course, most agencies are reputable and many times too much of a budget is put into advertising due to improper guidance even when an agency is not even involved. I feel merchandising is the most tangible form of promotion and some-times can be more effective than advertising as it can be used for specific rifleshoot promotions in selected markets. For example, we have field merchandising representatives who work in selected markets such as New York setting up special merchandising promotions.

The figures indicate that 60 percent of funds going for agricultural promotions are being spent on fruit and dairy products. This indicates to me the need for promotion of fresh products. This is the greatest area we have for differentiating our product from competing products.

Mr. Boyd's paper points out that farmers and producers are the major sources of revenue for agricultural promotions. This, in my opinion, is out of proportion, as shippers, handlers, manufacturers and others in the channels of agricultural distribution should be sharing more in the promotion of agricultural products.

The amount spent by State departments of agriculture for promotion research is regrettable. I believe this is an area where we should be performing our most needed and valuable services--developing information and providing guidance so farmers can promote their product in the most effective and economical manner.

At this point, I would like to discuss a problem and raise a question. One of the most difficult problems to overcome in agricultural promotions is timing. Farmers generally are not aware of the many different aspects of developing an effective advertising program. They come to us or similar agencies asking for help in promoting their crop much too late. Should we go ahead and originate a crash program when we know there is not enough time to research the problem and do sufficient planning? Can we justly originate "crash programs" on the basis that we have to get them moving in the promotion business while they are interested? We have spent years trying to motivate them into promoting--now they are ready. Do you take the risk of them becoming cold by putting them off until next year or do you go ahead with a crash program?

According to Mr. Boyd's paper, commissions have shown the largest gain in agricultural promotions. In our State, enabling legislation is probably responsible for the increase in promotion activities by State commissions. We have finally been able to get farm groups to adopt general enabling legislation and agree later on the many controversial technicalities of market orders.

I agree with the following obstacles listed by Mr. Boyd and will comment briefly on each of them:

- a. No skill in advertising. Farm groups cannot afford full-time staffs. In my opinion, this points out a need for help and guidance in this area either from State departments of agriculture or other State agencies.
- b. Lack of control. Enabling legislation can give some assistance in overcoming this problem of lack of control of the commodities. Some of the enabling legislation laws in our State authorize the Advisory Committee to set up regulations concerning flow to market, and quality standards.
- c. Innovation difficulties. This is true but much can be done in the area of package, process, handling, distribution, and development of more uses for the different products.
- d. Competition from other industries. This will, of course, be on the increase and, therefore, it appears that agricultural groups will need to promote more than ever.
- e. Lack of interest and recognition of importance. There will always be an educational job needed to develop interest on the farmer's part in agricultural promotion.

While we're discussing education, a real educational job needs to be done with our agricultural groups on the objectives of advertising and promoting. Many times members of groups are dissatisfied with the results because they have no idea what was supposed to be accomplished by the different promotion campaigns.

I agree wholeheartedly with Dr. Boyd's description that the client-agency relationship is muddled. This is a two-way street and much needs to be done both by the agency and the farm group client if this relationship is to improve.

In closing, I would like to say this: We that believe in advertising and promotion have a twofold responsibility: (1) we must sell farm groups on the need for advertising and promoting their products the same as other industries; (2) when we have sold them on promotion then we must do our best to see that their commodities are promoted in the most effective and economical manner possible.

The Role of and Limitation to Advertising and Promotion in
the Solution of Agricultural Problems

by

William S. Hoofnagle, Deputy Director
Marketing Economics Division, Economic Research Service
U.S. Department of Agriculture

Role of Advertising

The aim of the entrepreneur is to maximize over a period of time the total dollar units of positive difference between the return from sales of goods and services and the cost of producing them. To help achieve this end, approximately \$13 billion was spent last year on advertising and promotion. 1/ Outlays for advertising and promotion have increased phenomenally for both agricultural and nonagricultural products in the postwar years. Nationwide markets, vast increase in consumers' disposable income, and development of virtually universal advertising media helped set the stage for the widespread use of advertising as a selling vehicle. In many companies the advertising budget is now exceeding annual profit. 2/

The role and purpose of advertising and promotion is usually thought of in the context of increasing sales and net profits. To achieve this end, advertising attempts to build a monopolistic position with respect to some special set of attributes that set the particular product apart from all other products. That is, advertising seeks to implant the notion of uniqueness in the mind of the potential consumer by changing the position, image, or characteristic of the product in time and space.

Advertising and promotion of farm products, either by brand or commodity, can be extremely beneficial to consumers by informing them of price, availability, and special use characteristics. 3/ This information makes the consumer aware of purchase opportunities in the market and minimizes the total expenditure of time and money for food and fiber.

Advertising and promotion have a special role of informing consumers about the availability of new food products and their special use characteristics. This aspect of advertising has taken on added dimension in the last few years. It is reliably reported that one-half the food products presently available were not on retail grocery shelves in the same form a mere 10 years ago. Innovations in foods would likely be slowed considerably if it were not possible to inform consumers of their availability and their special attributes. This in turn would be reflected in a substantial slowdown in growth of the food processing industries with a likely deleterious effect on the availability of convenience food.

1/ Advertising is defined as a paid form of communication designed to reach a certain audience. Promotion is defined to include all those activities put forward to increase purchase and use of a product, and encompasses advertising, merchandising, public relations, etc.

2/ Martin Mayer. The Intelligent Man's Guide to Sales Measures of Advertising. Advertising Res. Found. Rpt., April 1965, p. 3.

3/ James D. Shaffer. Advertising in Social Perspective. Jour. Farm Econ., 46(2): 387-388, May 1964.

Information on special uses and preparation of foods as provided by advertising and promotion has played an important role, especially in the household of young homemakers. Family formations are taking place at an alltime rate. Many new homemakers need food-buying suggestions and recipe ideas which can be furnished through advertising. Again, information on new food products is especially beneficial to the more inexperienced homemaker.

Advertising and promotion have a special role in changing the image of a product through development of more favorable ones. Use of many farm products has suffered undeservedly because of unfavorable images. For example, lower per capita use of milk may be attributable in part to the belief that it is adulterated, fattening, etc. Other farm products are thought to contain elements which are injurious to health and well-being. Thus, over time a sizable part of the population may have been exposed to claims or implications adversely affecting the consumption of a product. Consumption of a red meat has been hampered because of an image it acquired among soldiers in World War II. Other cases could be cited to illustrate the effect of a poor image on the use of an agricultural product. Through advertising, many old images of products are being torn down and given a refurbished look. Each commodity group has a responsibility of closely examining the image that its product has in the eyes of consumers to ascertain whether it might be improved. It goes without saying that the images surrounding a product determine to a large degree its success in the market. A hypothetical example of contrasting images in the industrial world might be two autos, one giving the impression of a lumbering, odd vehicle, the other giving an image of a dashing, exciting car to be driven by the young in spirit. Perhaps agricultural products would not fall into the extreme contrasting images that can be cited in the nonagriculture world, but images do surround each food or commodity. Advertising has a special role to play in correcting false or poor images that are often associated with food products.

Advertising and promotion are major competitive weapons, employed to gain a larger percentage of the consumer's dollar or a stronger position within the market. They are basic tools for aiding large-scale production and mass distribution. Pick up any national magazine and count the number of pages of solid advertising or, better yet, examine any local newspaper to find a sizable portion of it devoted to advertising. Moreover, it is estimated that the average metropolitan family may encounter 1,500 to 2,000 different advertising and promotion messages within a 24-hour period. Thus, it is evident that the task confronting commodity groups in reaching potential users and buyers of farm products will not become less difficult or less expensive in the years ahead. Although the job ahead is large and the task difficult and expensive, it is a challenge to farm groups, including those represented here today, to use advertising and promotion wisely and effectively in meeting the competition for the consumer's dollar.

The overall role of advertising and promotion for farm products is keeping in the forefront of the consumer's mind the value, choices, and benefits derived from a well-balanced, nutritious diet. Advertising and promotion are a selling tool within the total marketing effort, and vital to achieving maximum acceptance and distribution of farm products. Now let us turn to examine the limitations that confront the use of these tools in the solution of agricultural problems.

Limitations of Advertising

Advertising and promotion of farm products take place on a branded as well as unbranded or commodity basis. Private firms, some cooperatives, and commercial food processors have utilized brand or differentiated advertising in selling farm products for many years. Advertising and promotion of farm products on an unbranded or commodity basis have become more widespread since the mid-fifties. Neither approach is without its limitations; however, promotion of a commodity per se holds less promise of success by far.

Differentiation for farm products, not unlike that for nonfarm products, has been the basis for attempting to create a monopoly. Differentiation for farm products may take the form of a brand name, trademark, package design, a certain color or taste, etc. Likewise, differentiation has been sought for farm products through State of origin (Wisconsin cheese, Idaho potatoes) and variety (Iceberg lettuce, Pascal celery).

Economic Considerations

In differentiating a product, the firm attributes to it certain characteristics, making it unlike the products of other firms, thus removing the firm from a position of atomistic competition (fig. 1). Through advertising and promotion, the firm seeks to acquaint consumers with the benefits accrued through purchase and use of the special product. Assuming purchasers react favorably and tend to buy in larger quantities at the former price, the demand for the product has now changed (fig. 2). ^{4/} In addition to an upward shift in demand, the slope of the firm's individual demand curve should change from infinite to something less elastic. In lay terms, the desire for the product is increased so that purchases are less seriously affected by the price increases. In the true sense of the term, a monopolistic position has been effectuated for the product and a firm can now exploit this position within the restraint of costs.

In a dynamic economy, advertising is likely to create monopolistic conditions that can be exploited only temporarily. ^{5/} Whether it be a product of agricultural or nonagricultural origin, any imputed characteristic that gives a product "sales dominance" brings forth an immediate challenge from competitors who may market a like product attributing to it imputed characteristics of equal, if not superior, qualities as compared with the original item. If other firms are able to copy the imputed characteristic (innovation) of the original product and this is accepted by consumers, then the production of firms within the industry becomes homogeneous again (fig. 3).

On the other hand, competitive firms may respond to the challenge by bringing forth new but different innovations developing a monopolistically competitive structure of their own (fig. 4). ^{6/} This action provides consumers with a new set of heterogeneous products.

Brand advertising of an agricultural product and the attempt to create a monopolistic position is well illustrated by the cigarette industry. A leading firm introduced the filter tip cigarette with advertising copy claiming the ability to reduce harmful tars. Other firms countered by producing filter tip cigarettes advertised as equally as good if not superior to the original one. Some firms added other

^{4/} Nicholas Kaldor. The Economic Aspects of Advertising. Rev. Econ. Statis. 17(45): 12-13, 1949-50.

^{5/} Neil H. Borden. The Economic Effects of Advertising. Richard D. Irwin, Inc., Chicago, 1942, p. 438.

^{6/} Edward Chamberlain. Theory of Monopolistic Competition. Harvard University Press, Cambridge, 1936.

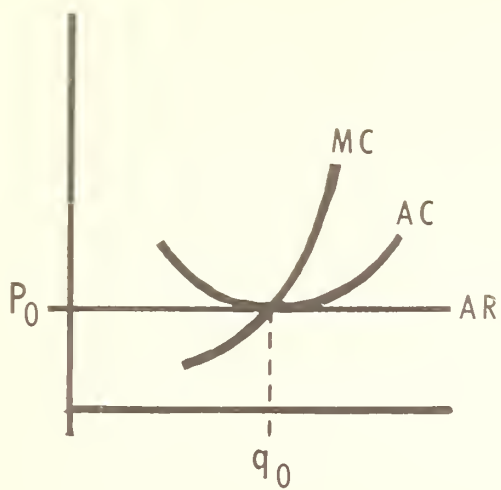


Fig.1

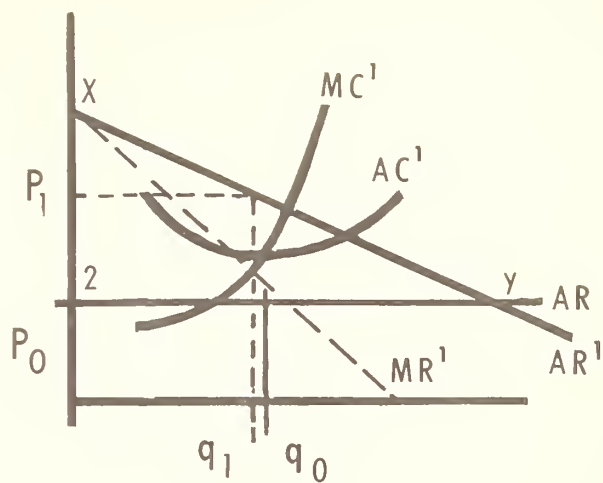


Fig. 2

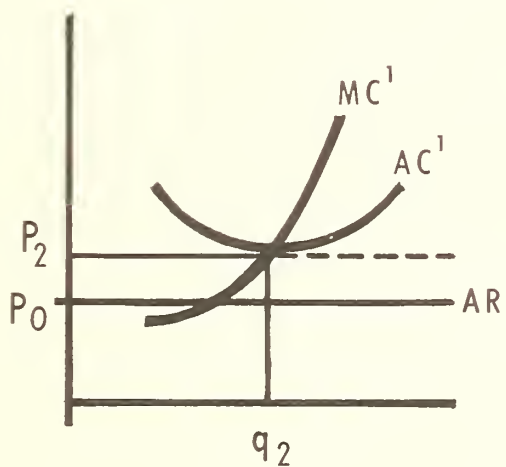


Fig. 3

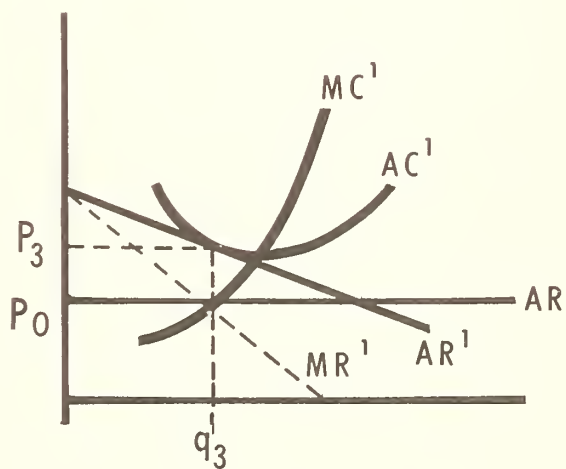


Fig. 4

innovations to their filter cigarettes such as a "hint of mint" and so on ad infinitum (fig. 4).

Advertising and promotion of farm products under a brand name, trademark, etc., are basically short-run strategies to create a monopolistic structure from which to extract excess profits. The object is to be first with the imputed characteristic and retain it for the longest possible period of time.

What are the limitations to advertising and promoting farm products by brand names, trademarks, or other distinguishing characteristics? The limitation to brand advertising for farm products is dependent on the extent to which consumers will accept competing products attributed to have similar qualities. This naturally raises the question as to whether advertisements by competitive firms may wash each other out and have little, if any, effect on market growth. However, there is little question but that the relative position of various firms within the industry may be considerably altered by the advertising activities.

On the other hand, it is possible that repetitive advertising of a branded food or fiber product, imputing to it special characteristics, can achieve a monopolistic position. Moreover, it is likewise plausible that a favored position in the market can be held for a farm product to a certain degree over time. Examples illustrative of the point might include well-known branded farm products such as butter, flour, turkeys, and hams. It would appear most appropriate for firms engaged in promoting farm products always to consider the brand or trademark route where it is even remotely feasible.

Limitations involved in commodity or commodity-class advertising and promotion are considerably greater and more numerous than those incurred in the branded or differentiated approach. ^{7/} Economic and marketing problems combine as a barrier and limitation to farm commodity advertising and promotion.

In the aggregate, farm commodities are generally recognized as having a relatively inelastic demand with respect to price and income. However, items within farm product categories tend to have higher price and cross elasticities. This means consumers in the aggregate are not disposed to buy more or less of a farm product as prices change; and that rising personal disposable incomes will not be reflected in proportionate increases in demand for farm commodities. But it does mean that consumers may substitute purchases of particular food and fiber products to take advantage of lower prices.

These demand characteristics lead us to a question always raised in considering commodity advertising and promotion. That is, why promote farm products when confronted by the "full-stomach" concept. The concept is based on the fact that the stomach is not expandable and, therefore, advertising and promotion cannot expand aggregate market demand, ^{8/} and that expansion in total demand for farm products is primarily a function of population along with its age distribution. Critics also point out that all commodity promotion is capable of doing is effectuating the substitution of one product for another in the diet of consumers and, thus, is an economic waste of resources. From this reasoning, it follows that if an expansion in demand is created through promotion of a food product, say apples, a reduction is likely to occur in the demand for some other food. It is contended that if funds spent for promotion of food were reflected in lower prices the standard of living could be raised by an equal level. ^{9/}

^{7/} Wendell E. Clement. Some Unique Problems in Agricultural Commodity Advertising. Jour. Farm Econ., 45(1), February 1963.

^{8/} The average person in the United States consumes annually about 1,500 pounds of food.

^{9/} It is estimated that the distributive food industry spent approximately \$2½ billion last year for promotion, not including funds expended by farm commodity organizations.

Certain shortcomings arise to counter total acceptance of no advertising of farm commodities and foods based solely on the full-stomach concept. The number of pounds of food consumed annually by individuals in this country has not changed significantly in past years. However, the composition of diets varies greatly and there is recognizable difference by income level in amount of food consumed. Advertising may be an effective instrument in shifting diets from largely starches and carbohydrates to more meats, poultry, dairy products, fruits, etc.--high farm-resource-using foods. Obviously, for different reasons, many people are not reaching the average level of food intake. ^{10/} In this instance, advertising and promotion may expand the demand for certain products without adversely affecting competing items. Also, in a controlled experiment on apples, testing sales effectiveness of a health and use theme, results showed increased use of competing fruit items. That is, increased sales of apples tied to a health theme were found to be associated with increased sales of grapefruit, oranges, etc. ^{11/} This may mean in some instances, depending on the advertising, that the effect on sales of competing products may be positive rather than negative. This does not mean, however, that a reduction in demand may not be experienced in some other food area.

Marketing and Management Considerations

Agricultural groups promoting farm commodities have unique problems not common to private firms using a brand approach. The uniqueness arises primarily because they usually lack ownership of products advertised. Lack of ownership means that commodity promotion groups exercise little, if any, control over supply, quality control aspects, pricing, packaging, and many other factors which have a direct bearing on salability of the product.

The cross elasticity of supply among many farm products is relatively high, posing a real limitation to effective commodity advertising. Advertising resulting in higher prices for a commodity may concurrently raise the demand for other easily substituted products. Supply responses of competing products must be considered by a commodity group in formulating a promotion program. It has been shown by Nerlove and Waugh that the profitability of promotion depends not only on the demand response but also on the elasticity of supply and the extent of external economies or diseconomies of scale. ^{12/}

Promotion resulting in higher prices for a product may also stimulate large supply responses of that product in subsequent periods, adversely affecting prices. Supply response to price changes can be rather quick for vegetable products, broilers,

^{10/} Analyses of food consumption practices of U.S. consumers indicate that the total amount of food consumed would increase 7.3 percent if incomes of all families with per capita incomes below \$1,000 were raised to that level. While such a level of achievement appears to be remote either through normal economic growth or public policy, it does indicate a capacity for growth. From J.M. Wetmore, M.E. Abel, E.W. Learn, and W.W. Cochrane, Policies for Expanding the Demand for Farm Products in the United States, Part I, History and Potentials, by Univ. Minnesota Agr. Expt. Sta., Tech. Bul. 231.

^{11/} Peter L. Henderson, Sidney E. Brown, and James F. Hind, Special Promotional Programs for Apples--Their Effects on Sales of Apples and Other Fruit. U.S. Dept. Agr., Mktg. Res. Rpt. 446, p. 8.

^{12/} Marc Nerlove and Frederick V. Waugh. Advertising Without Supply Control: Some Implications of a Study of the Advertising of Oranges. Jour. Farm Econ., 43(4), Nov. 1961.

turkeys, etc. There are many other ramifications in the question of supply control and its relation to the whole marketing question. Quality control is another problem of considerable magnitude and importance in any marketing and promotion effort. Commodity groups are often confronted with the task of promoting products which may show a wide range of quality with a noticeable lack of attention given to grades and standards. Failure to maintain strict quality standards for raw products is a major limitation to the development of an effective long-range program of promotion. In fact, adverse effects are highly probable when a product lacking in quality and uniformity of acceptance is brought to the attention of consumers through promotion.

The use of price appeals is not available to producer groups in creating demand expansion. Often it has been shown that price appeals coupled with advertising is many times more effective in widening distribution than any other factor. Through the double-barreled approach, advertising and price, nonusers can be made a special target, attempting to make them regular consumers of the product. Thus, commodity groups are limited since they must rely strictly on a nonprice appeal where price manipulations could play a vital and effective role.

Another limitation to advertising and promotion is looking upon and using them as an island of influence, separate and apart from other facets of marketing--or simply as a selling tool. Uncoordinated and disjointed with other aspects of marketing, advertising is unlikely to serve any useful purpose. ^{13/} In fact, a distinct possibility exists that poor distribution, improper product flows, etc., will be highlighted.

Thus, advertising and promotion must be integrated fully into the total marketing plan, using them to supplement and complement other marketing activities. Of all shortcomings experienced in promoting farm commodities, perhaps lack of coordination between different handlers in the marketing channel stands out. Often commodities have been advertised and promoted without having adequate supplies in the market outlets or, to say the least, without adequate supplies of high quality. Also, promotions have been undertaken on the spur of the moment without any effort to make them part of the total marketing effort developed through long-range planning. Coordination and proper timing are paramount in building an advertising effort within the marketing program for any commodity.

Summary

The major problems in American agriculture resulting largely from overproduction will not be cured through advertising and promotion. Nor will advertising and promotion serve as a panacea for other ills that may beset the marketing of farm products. Although it is appropriate for selected commodity groups to expand demand for their respective products through advertising and promotion, this can never be a solution for all of agriculture.

Commodity groups should concern themselves with the development of a comprehensive marketing program of which advertising and promotion can be an integral part. Likewise, advertising and promotion can effectively serve to correct false images or build improved ones for some farm products. Commodity groups should always explore the possibilities of differentiation of product in developing an advertising and promotion program.

^{13/} Edward Daley. Guidelines, Advertising and Promotion of Farm Products. Purdue Univ., Coop. Ext. Serv., Lafayette, Ind., Ext. Cir. 530, p. 29.

Discussion: The Role of and Limitation to Advertising and
Promotion in the Solution of Agricultural Problems

by

William Carroll Lamb
Florida Department of Agriculture

First I want to compliment Dr. Hoofnagle and Dr. Boyd on their two very fine papers. These papers point out many things. Perhaps, generally speaking, they did a good job of emphasizing the fact that the word advertising is the most confused and abused in the English language. It seems that everyone is an expert in advertising. Perhaps this could be because advertising is the one profession that we are all exposed to. It has been estimated that the average person is bombarded with an average of 1,500 advertising exposures daily. An advertising executive would be sneered at if he should tell an accountant or engineer how to solve a problem peculiar to their profession. Yet, an accountant or engineer feels perfectly within his rights when he criticizes an ad or promotion idea.

I was interested in Dr. Hoofnagle's remarks about some companies having advertising budgets which exceed their annual profit. I am afraid many companies feel erroneously that the answer to advertising problems is in the amount of advertising, rather than the quality or efficiency of the program.

I agree that much work must be done in the area of consumer education, such as (a) developing new uses of products, (b) developing new and easier ways of preparation, (c) selling consumers on new ideas for foods. More and more commercial firms are realizing the importance of this and are adding more home economists to their staffs. Consumer education and promotion of this type is particularly important for commodity groups specializing in fresh commodities promotion. The average housewife is willing to sacrifice a certain amount of quality for convenience. We in the fresh commodity industry must convince her that it is worth the extra effort required to prepare the fresh fruit or vegetable.

I agree with Dr. Hoofnagle, that some products such as cranberries, tuna, etc., have image problems, but promotion can improve and build favorable images for States and areas as well as specific commodities.

FOR EXAMPLE: Sunkist- California
Idahos- Idaho
Sunflavor- Florida

Our new Sunflavor seal of quality for Florida produce will serve as a master trademark image builder and will act as a promotional umbrella for all of Florida's top quality products, differentiating from products of lesser quality both in and out of State.

Dr. Hoofnagle's points on competition were well taken. Many times commodity groups without competition at certain seasons of the year feel that there is no need for promotion. Often, even though there is no competition for certain commodities, there is a promotion problem of increasing per capita consumption.

I agree also, that the advertising of all commodities might have some favorable overlap and benefit some other product. The advertising of certain fresh fruits and vegetables helps the entire fresh industry.

In discussing quality, I certainly agree as to its importance but also having promotable quantities is a vital necessity in agricultural promotion.

The speaker's remarks on non-price appeals are true. Usually, this is the only appeal we would have to offer. However, in our State, some guarantees of prices for a specific length of time have been made to retailers as an inducement for them to promote. For example, they would know that they would have the same price for 2 weeks. This has been tried on an experimental basis.

In my opinion, we have barely scratched the surface as far as agricultural promotion is concerned. We have the awkward problem of getting farmers interested in promoting their products and at the same time we must keep them from expecting miracles, once they agree to promote.

In bringing my remarks concerning Dr. Hoofnagle's paper to a close, I would agree that promotion certainly has its limitations. Yet, with all its shortcomings we need to use all possible promotional tools to help solve the farmer's many marketing problems.

Present Status, Procedures, and Practices of Agricultural Groups

and

The Role of Promotion and Advertising in Marketing and Their Limitations in
the Solution of Agricultural Problems

Discussion by

Paul T. Rowell, Chief, Agricultural Development Division
Oregon State Department of Agriculture

As we all know, brand and other individual advertising and promotion programs for agricultural products have been carried on for many years. Such programs on a commodity-group basis are much newer, but have increased rapidly in recent years. While the basic aims of such programs generally are to broaden demand for the respective commodities and to improve prices or to stabilize incomes on a favorable basis, the approaches to those goals vary greatly with the commodities and areas involved, and with the funds available for the programs developed and carried on.

We all know that a major problem of commodity groups with programs not connected directly with the marketing of their products is the maintenance of sustained financing on a level adequate to permit the development and carrying out of well-planned programs. This problem becomes increasingly important when direct financial support from producers is involved.

While there are outstanding examples of producers' successful voluntary promotion programs not directly associated with market sales of their commodity, these are few and far between, and generally have not been successful on a sustained basis where direct financial support by producers as a whole in any substantial amount is involved.

As a result, direct legislation and enabling acts have been enacted in an increasing number of States, authorizing or enabling producers, and in some States, both producers and handlers, to levy a uniform assessment on sales of their commodity, for development and conduct of a self-help program of research and market development for that commodity produced in the State or area involved.

As Dr. Boyd has pointed out, many of the promotion groups have inadequate financial and administrative resources with which to develop and conduct an effective promotion program. That is an important factor which we have been calling to the attention of smaller commodity groups in our State when they have contemplated establishment of a commodity commission under our State enabling act. Sometimes when their production is part of that in a larger area with similar marketing and other problems, such State groups have entered into cooperative support of a program through a regional or national organization, with representation therein from all States involved.

Dr. Boyd also emphasized the need for promotion groups to have a better understanding of advertising practices and procedures and the role of an advertising agency. With the smaller funds available to many such groups in a State like ours compared to those

with much larger commodity volume and income in such States as California and Florida, direct advertising has played a minor role in the programs of most of our commodity commissions. Marketing and advertising research and appraisal projects have been entered into to some extent by our State's two such commissions which have engaged in any substantial amount of advertising as part of their promotion programs.

Dr. Hoofnagle has discussed the advertising and promotion of farm products both on a brand and on a commodity basis, and has outlined some of the advantages and limitations of each.

One point with which his paper did not deal is the question of whether normally there is either competition between them or the complementing of brand promotion by commodity programs on the same product. While without attention to the values of such correlation there possibly can be competition or conflict between them, in my experience with a number of such agricultural commodity groups, their promotion programs generally have complemented the brand or individual sales promotion programs of at least the primary handlers of the commodity. Where commodity promotion groups have made concerted efforts to do so, a high degree of complementary correlation between both types of programs sometimes has been achieved.

As an illustration, I recall discussion at a meeting several years ago of one of our State's several seed commodity commissions with a number of the leading primary seed handlers in the State. To an inquiry by commission members after delineating their promotion program and requesting suggestions for its improvement, the seed handlers said, "Just do more of what you've been doing--you're making it easier for us to sell more of your commodity." No doubt the fact that our State accounts for nearly all U.S. production of that seed commodity was a substantial aid to that degree of complementary correlation of their commodity program with sales programs of their handlers.

Another type of close correlation of individual and commodity promotion programs in our State has been that on a commodity grown in many areas of our country, but with at least 90 percent of our State's production and marketing of it found in the Willamette Valley of western Oregon from Eugene to Portland, where that approximate percentage of our population also is located. That commodity industry in our State has an Inter-Industry Council composed of representatives of the State commodity commission and the industry's voluntary producer association with the processor-distributors of that food commodity, who have worked together closely on tie-in promotion programs featuring correlation of the commission's and processor-handlers' sales program for that commodity grown, processed, and marketed in our State.

Under conditions such as those outlined above, the limitations normally facing commodity promotion programs and those facing brand promotion or individual sales programs can be minimized, with mutual benefits to both. With joint programs as under the second illustration, the use of price appeals also is a tool not available under normal commodity promotion programs, which can be utilized under these conditions when found desirable and feasible.

I'm in no way holding out these illustrations as examples of ideal promotion programs, but have mentioned them only to bring out variations in promotion programs and practices which have appeared to have some values under the conditions faced by those groups in our State.

Since conditions differ with each commodity and often between States or regions, I don't think a definite pattern can be established for such complementary or correlated commodity and brand promotion or individual sales programs. However, this is a field which I believe justifies exploration and utilization wherever possible and feasible, for mutual benefits to both types of programs and to those involved in them.

Another factor I believe is worth mentioning at this time. It has not been stated here, but there have been those among agricultural economists who have contended that food commodity promotion programs merely set up competition between them in the States or areas involved and that they tend to cancel out and defeat each other's programs, based largely on the "full-stomach" concept. While it is true that a certain amount of competition between the States or areas involved cannot be avoided, that competition was there to a great extent before these programs were started. The problem facing commodity groups in most instances has not been one of starting something which others may follow and compete with, but of getting into the race that already is on, or of sitting on the sidelines and watching their competition run away with the market. Commodity groups are becoming increasingly aware that if they don't develop and publicize the values of their commodity and of broadened uses for it, no one else will, while other commodities, both agricultural and industrial, are plying their wares with the trade and the public.

Incidentally, the promotion of farm commodities is not confined to those which help to fill the human stomach. Examples of others include such commodities as cotton and field and turf seeds. Even on food products, it sometimes is mostly a matter of maintaining or regaining the commodity's share of the market, which may have been losing ground to competitive commodities, either recently or over a longer period of time. Sometimes this may be made possible or may be aided by the development of new products from the affected commodity.

As an illustration, I am sure all of us here are aware that following a steady downtrend in per capita consumption of potatoes in this country over a long period in the past, that trend not only has been stopped, but has been reversed, with a gradual uptrend in total use of potatoes for food since the midfifties, with 213.1 million hundredweight used for food in 1963 compared to 180.1 million hundredweight in 1956. This as we know has been made possible by the rapid development and acceptance of processed potato products, which accounted for 62.3 million hundredweight in 1963, compared to 24.7 million hundredweight in 1956, while fresh potato consumption continued to decline, from 155.4 million hundredweight in 1956 to 150.8 million hundredweight in 1963. ^{1/} Per capita consumption of potatoes for food in our country in the 1963 marketing year was estimated by USDA at 112 pounds, the highest since 1951 when per capita consumption totaled 114 pounds. There are predictions that more than half of all U.S. potato production will be consumed in processed form by 1970, and this percentage already has been reached by potatoes from Idaho, the heaviest potato-producing State.

To state that this reversal of trend and increase in potato consumption was due entirely to the development of processed potato products would ignore any accompanying factors which may have aided this, including market development and promotion. I recall that when cold storage supplies of frozen french fries, the leading frozen potato product, were in a serious surplus situation several years ago, redoubled promotion efforts by the frozen potato products industry may well have been one of the factors in shortening the duration of that surplus and consequently their depressed market situation, which was relieved about 2 years ago, and has not yet recurred since that time.

One of the points included in Dr. Hoofnagle's paper is so important that I feel it deserves repeating and reemphasis here. That is the necessity for maintenance of quality and uniformity of the commodity being promoted, or its identification through promotion programs can cause highly adverse effects when brought to the attention of the consumers.

^{1/} 1965 Acreage-Marketing Guides, Summer & Fall Potatoes. U.S. Dept. Agr. Consumer and Mktg. Serv., Mar. 1965

To sum up:

1. The competition facing agricultural commodity groups for some time has been such that more and more of them have felt it necessary to engage in marketing promotion of a State, area or industrywide basis, or a combination of them. These may complement rather than compete with brand or other individual promotion programs, most of which were in operation prior to the development of commodity promotion programs.
2. Due primarily to producers' difficulties in developing sustained financial support for commodity promotion programs not directly connected with their marketing, specific legislation and enabling acts have been enacted in many States to aid producers of agricultural commodities (sometimes including first handlers) to develop and operate self-help programs, including advertising and promotion of their commodity.
3. Many smaller commodity groups even with legal assessments lack adequate finances to develop and conduct effective promotion programs. Such State groups sometimes participate in cooperative promotion programs on a regional or national basis.
4. Limitations involved in commodity advertising and promotion programs can be minimized through correlation or joint efforts with the handlers' brand or other individual promotion programs.
5. Competition for a commodity's share of the market existed before commodity promotion programs were developed, and the situation facing most commodity groups in recent years has been that of getting in the race that already is on, or of watching their competition run away with the market.
6. Maintenance of quality and uniformity of the commodity being promoted is a must if adverse effects through its identification to the consumer are to be avoided.

The Implication of Market Development and Promotion Schemes on Producer Returns and Consumer Welfare

by

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Introduction

There is rather general agreement that promotion schemes, at least for some products, increase sales. There is much less agreement that product promotion generally has a favorable impact on consumer welfare and net returns of individual producers. This lack of agreement with respect to the impact of promotion schemes on consumer welfare is, in my opinion, due primarily to the subjective reasoning involved in evaluating the implication of any factor on consumer welfare and, secondly, to the fact that the effect on consumer welfare may be indirect as well as direct. The implication of promotion schemes on producer returns cannot in many instances be evaluated under commercial conditions because of the difficulty of holding other factors constant, because of the costs involved in conducting controlled research for measuring the effect of market development on sales, and because of lack of analysis of the effects of advertising and increased sales on the net profit of individual firms.

Whereas market development in general has certain benefits in common for both producers and consumers, there are both differences and similarities of interest with respect to product sales. I prefer, therefore, to first treat the two subjects separately and later bring them together in discussing implications common to both. Further, I shall choose the hypothesis that market development, including promotional schemes, has, in balance, a favorable effect on both producer returns and consumer welfare, but with the qualification that benefits may frequently be indirect and that certain types of market development under certain circumstances are uneconomic.

The term promotion as used in this paper includes all attempted methods of expanding the market for increasing sales, including improved selling techniques, improved display, advertising, and any other method of promotion.

Implications of Promotion Schemes on Producer Returns

Theoretically, the determination of the effect of direct, short run benefits of promotional programs on producer returns can be accomplished through marginal analysis and is, on the surface, a comparatively simple procedure. It pays to advertise to the point where the additional advertising increment plus any other costs resulting from the increased output equals the additional revenue resulting therefrom, other factors remaining in similar relationship. But in reality, the determination of the point of most profitable promotion, even assuming optimum choice of promotional programs, is extremely difficult, particularly for established products with highly inelastic demand. To my knowledge, few firms analyze the relationship between increased sales resulting from advertising, advertising costs, and the resulting effect on efficiency of plant operation in response to increasing or decreasing costs relating to the scale of

operation. There are a number of important reasons for this lack of analysis. The data may be inadequate. The cost is usually prohibitive. There may be too much reliance upon the advertising agency whose function seems to be, in most instances, to design programs for increasing sales and does not normally include a marginal analysis of the firm's operation in relation to the promotional program.

The structure of the industry and the nature of the product have an important bearing on the implication of promotional schemes on producer returns, particularly with respect to industry-wide versus brand advertising. In monopolistic or strongly oligopolistic situations where the entrance of new firms is restrictive, industry-wide advertising may increase producer returns, depending upon the price elasticity of demand, the advertising elasticity, and whether the industry is one of increasing or of decreasing costs at the levels of operation related to the problem under consideration.

In instances where the industry is oligopolistic and the demand is highly inelastic, the cost of market development may, of course, be shifted to the consumer. But offsetting this possible benefit to producers is the fact that products with low price and income elasticities would be expected to have low advertising elasticities insofar as non-brand advertising is concerned. This is not to be confused with the fact that effective promotion would be expected to decrease the elasticity of demand.

Individual firms under highly competitive conditions and producing non-differentiated products may also benefit from industry-wide advertising under the assumptions mentioned above. The primary difference is that entry under highly competitive conditions, theoretically, would not be restricted and the increased demand resulting from the advertising would be more likely to result in increased sales and no increase in price. Whereas there would be a benefit to the industry as a whole if the marginal revenue were to exceed the marginal cost, there would in most instances be no direct benefit and only an increased cost of market development to individual firms producing established non-differentiated products for whose output the demand is perfectly elastic. The primary exception to this relates to the market development for new products where the realization of the industry is dependent upon a minimum expenditure for promotion sufficient to assure sales outlets. Beyond this point, the effect on individual firms would be similar to that for the firms in an established industry, everything else being the same.

Thus, whereas industrywide non-brand promotion may benefit the industry as a whole and perhaps the economy in which the industry is located, it may or may not increase individual producer returns, depending, as mentioned above, on elasticities of price and advertising, on the cost structure of the firms involved, and upon the sales response to the increase in demand. In some instances, of course, the increase in promotion may be uneconomic for the industry as a whole and consequently uneconomic for individual firms within the industry.

Industry Promotion Under Elastic Demand

In instances where the price elasticity of demand for the output of the industry as a whole is comparatively elastic, the response to advertising would also, but not always, be expected to be comparatively elastic. Under these circumstances, the chances of economic industrywide promotion under conditions of decreasing costs for individual firms through economy of scale would be rather good.

Industry Versus Brand Promotion Under Inelastic Demand

Industry advertising of a commodity with a high degree of inelasticity with respect to both advertising and price would not be expected to increase net returns either for the industry or for individual firms. For example, there would be little justification for advertising salt per se and perhaps not much more for advertising bread per se. The demand for an individual brand on the other hand may be elastic and advertising justified under oligopolistic conditions where individual firms would defeat their own purpose by entering a price war. However, for established products where differentiation is difficult to convey, even brand advertising may not be significantly effective in causing a shift in brands. In a recent study of consumer demand for milk in the Honolulu Metropolitan area where milk processing is an oligopoly, only 10 percent of the respondents indicated that media advertising affected their choice of brand. ^{1/} Yet, considering the fact that competing firms may be equally effective in their advertising, the 10 percent would likely be an underestimation of the proportion of consumers who would switch to an effectively advertised brand from one that is not advertised at all, if such were the case. Whereas there is no conclusive evidence that media advertising in Honolulu has increased sales sufficiently either for the industry or for the individual firms to justify the expenditure, there is conclusive evidence that the school lunch program has increased sales of milk and this increase has been carried over into the higher age groups.

In further consideration of milk as an example, it might, of course, be reasoned that the recent decline in per capita consumption at the national level might have taken place even more rapidly if it had not been for a substantial amount of advertising both nationally and at local levels.

Market Development for New Products

For products which are unknown or comparatively unknown to a particular sales area, market development is essential. Without sufficient promotion to guarantee a level of sales out of the retail stores that will justify the shelf space, distribution is essentially unobtainable and the market would not be realized. If this level can be obtained at a market development cost plus all other costs which will permit an adequate return to the industry at all levels, the market development as "promotional scheme" would be unquestionably beneficial to producer returns. The justification for further market development beyond this minimum requirement would depend on the elasticities of price, income, and advertising and upon the cost structure of the industry and of the individual firms within the industry.

In developing the market for a new product, non-brand industrywide promotion would likely be the most effective use of funds, whereas this may well not be the case for established industries.

All Agriculture Versus Individual Industries

One of the more important considerations relative to the effects of advertising schemes on producer returns is the impact on individual industries versus the impact

^{1/} Frank S. Scott, Jr. Transition in Consumer Demand for Milk in Honolulu and Kailua. Manuscript to be published in 1965 as an Agricultural Economics Bulletin, Hawaii Agricultural Experiment Station.

on agriculture as a whole. For example, assuming that rice and potatoes are in direct competition for the same use, will advertising of both rice and potatoes increase the sales of both products combined? Will competitive advertising of oleomargarine and butter increase the sales of both products combined? Or will the advertising merely tend to cause a shift in the sales position of each product, thus possibly increasing producer returns for one product, but decreasing producer returns for the other? Particularly in the case of basic food products, such as those from rice, wheat, or potatoes, it is logical to assume a very low advertising elasticity not only for all of the industries combined, but for competitive advertising between the individual industries as well. Except perhaps for breakfast and dessert products, it is difficult to convince consumers to make substantial shifts from one basic product to another.

The promotion of fruits, vegetables, and meats in relation to the basic starch products would be expected to be more effective than competitive advertising between one starch product and another and in line with the trend toward lower per capita consumption of basic starch foods and higher consumption of fruits, vegetables and meats as income increases. But here again the increased sales of one group of commodities would be offset by decreased sales of another with an expected insignificant increase in per capita sales of the two combined, with or without market promotion.

What then would be the criteria for determining whether the returns to agriculture as a whole have increased as a result of all promotional efforts combined? It is generally assumed that the total quantity of food consumption per capita in the United States would not be expected to increase, but that adjustments would be made between types of foods as mentioned previously. It is also assumed, however, that as incomes increase consumers shift to higher value foods. This shift, therefore, would be expected to bring about a higher per capita expenditure for food products and a higher gross return for all agricultural products combined. To the extent that promotional schemes contribute to this shift they would be contributing to an increase in gross returns for all agriculture. This is not meant to imply, however, that net returns for agriculture as a whole would necessarily increase as a result of the promotional schemes. Since much of the promotion is competitive, it is my conclusion that the total expenditures on promotion and related costs for all agricultural products combined would exceed the direct marginal returns resulting therefrom. There are a number of ways, however, in which agricultural producers may benefit indirectly. The costs and effects of competitive advertising may force greater production efficiency, thus actually increasing net returns although marginal costs of advertising and related costs may exceed marginal returns. The increased buying power of the economy resulting from income to advertising agencies and media would be expected to increase the demand for agricultural products as well as non-agricultural products. This would, of course, be offset at least in part by the decrease in purchases by producers as a result of the transfer of funds to the advertising agencies. Also, where agricultural commodities are competing with synthetics, such as is true of wool, cotton, and sugar, effective advertising of these products would be non-competitive within agriculture and would be expected to increase the total returns to agriculture or to prevent a decrease which would take place without the advertising. Another area of promotional effort which would not be competitive or offsetting within American agriculture would be the promotion of American-produced agricultural products in foreign countries.

Tax deduction for advertising expenditures is an important factor to take into consideration in any marginal analysis of the benefits and returns from market development. The advertising is, logically, more apt to be economic once that proportion of the cost equal to the particular tax rate has been deducted. It is my impression, however, that many business firms may overestimate the actual advantage and spend advertising funds rather indiscriminately as a result. If the tax rate is 30 percent, for example, 70 percent of the cost still must be charged off in marginal analysis.

In view of these various considerations with the welfare of producers in mind, the basic question arises as to whether media advertising for such a commodity as milk, for example, can be justified on an industry basis even though a marginal analysis of direct costs and returns may show that the advertising is uneconomic. Perhaps it can be effectively argued, as mentioned earlier, that milk sales would have declined even further if it had not been for industrywide promotion. Thus the advertising provides an insurance against a drastic decline in demand for milk. It may be further argued that since the price elasticity of demand for milk is relatively low, the minimal advertising assessment on each quart of milk can easily be shifted to the consumer, which perhaps can be justified on the basis of a favorable impact of the advertising on consumer welfare through improved nutrition.

On the other hand, perhaps a greater percentage of the money devoted to industry promotion should be diverted to research in new uses for milk and new milk products. It is with the latter that the real opportunity for expanding the market potential would seem to lie.

In light of the foregoing reasoning, and without further evidence as to the relationship between market development expenditures and returns for basic food products with inelastic demand, I would favor the expenditures for the market development program with the recommendation that more consideration be given to the possibility of diverting funds for product and use development rather than to media advertising of the existing product.

Effects of Market Development and Promotion Schemes for Agricultural Products on Consumer Welfare

If promotion schemes are effective for producers, there will, of course, be an increase in demand. This means that consumers will either pay a higher price for the same quantity or take more at the same price. This would be, in effect, a forced increase in demand. The question would logically arise, therefore, as to how consumers might benefit under circumstances where, because of the promotion, they must pay a higher price for the same amount. If the increase in demand for this product is reflected primarily in a price increase rather than in the development of a broader market, the consumer may offset the increase in demand for this commodity by a corresponding decrease in demand for other commodities. Or she may decrease savings in order that consumption may be continued at the same level. In either case, the individual consumer's income would buy less, but there is an important difference between the two situations. If the increased expenditure on the promoted item is met by a decrease in consumption of other products, the individual consumer would be putting the same amount of money into circulation, but the total quantity of products purchased would decline, thus decreasing the standard of living of the individual and providing no stimulus to economic development for the economy as a whole. On the other hand, if savings are decreased in order to meet the higher cost of the product promoted, the individual consumer's standard of living would decline in the short run, but economic development for the economy as a whole would increase as a result of the increased propensity to consume on the part of the individuals. Assuming additional savings were not needed to meet investment, there would not likely be an unfavorable effect on the economy in total, but merely a shifting of resources from one industry to another.

Where the increased demand for the commodity is reflected in expanded sales rather than an increase in price, individual consumers will still shift their expenditures from other products to the advertised product or may decrease savings in order to buy more of the advertised product or to buy it for the first time. If total quantity of goods purchased remains the same, but with a shift in the types of goods purchased, both the standard of living of the individual consumer and the gross national product would remain essentially the same, assuming other factors remain constant. On the

other hand, if savings are shifted to purchases with no increase in the price of the advertised commodity, both the total quantity of goods purchased and the propensity to consume will increase, thus leaving the individual with the same standard living insofar as direct benefits are concerned, but increasing economic development as a result of the increased propensity to consume thus resulting in increased indirect benefits to all consumers.

Of perhaps more significance to consumers than any material benefit from actual purchases of products promoted is the free entertainment and education on television, radio, and newspapers resulting from the advertising expenditures. These media, which are largely dependent upon product advertising, have been important elements in molding the lives of today's population. Granted, there is much discussion as to whether the lives are being molded in the right direction. But at least under these circumstances the entire population is given an opportunity to take advantage of all media programs.

Thus, although there may be serious question as to the extent of direct benefit of market development for particular products on the welfare of individual consumers, it is evident that bringing goods to the attention of consumers enhances their choice of purchase, informs them on uses, provides a considerable amount of free entertainment and education and stimulates the propensity to consume. This increase in propensity to consume, through stimulating economic development, would, as indicated previously, be expected to increase producer returns and increase consumer welfare.

Summary and Conclusions

In light of the foregoing analysis, I would like to present, in summary, the following conclusions:

1. Market development, to the extent that it increases propensity to consume for the populace as a whole, stimulates economic development and undoubtedly increases both consumer welfare and producer returns.
2. There is in the majority of instances no conclusive evidence that industry advertising programs are either economic or uneconomic for established industries producing basic products with inelastic demand. There is conclusive evidence that promotion is essential in establishing a minimum level of sales in order to obtain distribution for new products. A critical re-evaluation of use of industry promotion funds is seriously needed.
3. It may well be that the costs of marketing would increase without the aid of advertising.
4. There is, to my knowledge, no objective method of determining the direct effect of demand creation on consumer welfare, where the increased demand is met by increased prices rather than increased output. It is logical to reason, however, that consumers may benefit by a greater knowledge of product availability and product use.
5. Advertising is a primary means of financing entertainment and education through its media programs. If these programs are good, the benefits, in themselves, may justify total advertising expenditures. Whether or not the programs result in proper cultural development is an unanswered question that should best be left to social scientists in other disciplines.

Discussion: The Implication of Market Development and Promotion
Schemes for Consumer Welfare and Producer Returns

by

W. R. Hoard
Cling Peach Advisory Board

Market development and promotion have been an integral part of California's cling peach industry activities for nearly 20 years.

The cling peach program operates under a Marketing Order under the State Department of Agriculture. At present the Order covers such other subjects as inspection and quality control, quantity control, research, and fair trade practices. Incidentally, there is a second order in the industry supported by canners only, which is concerned with quality control. Reports today are that a third Marketing Order has been assented to by growers and canners, and this one is primarily concerned with quantity control and managing of what seems to be, to this point at least, a perennial surplus problem. Thus, we have three Marketing Orders doing various things, one involving both growers and canners, one involving canners only, and one involving growers only.

If the other Orders function, then the grower Order is primarily concerned with advertising and promotion. The cling peach program for promotion, trade stimulation, and market development utilizes quite a few different tools and methods and gets involved with virtually all areas of advertising, public relations, education, merchandising, and promotion. If there are any areas of this type in which the cling peach program is not involved it is probably because we simply haven't heard of it yet.

The program is strongly oriented to consumer advertising, balanced with a lot of store headquarter merchandising work, in both the U.S. market and in Europe where promotion work is getting under way now in 10 countries.

The Cling Peach Board has eight topflight merchandising and promotion men, seven in the United States and one headquartered in Europe. Consumer advertising, food page publicity and general public relations, the institutional program with the away-from-home eating field, are all executed in terms of merchandising functions by this all important field staff. Each of these merchandising men has an office and secretarial help and pretty much runs his own show in terms of getting necessary work done within his territory. We use a major advertising agency for creation and placement of consumer, trade, and institutional advertising.

The consumer campaign for some years has been consistently oriented toward high-style service approach. No ads ever run without recipe method or service ideas strongly featuring cling peaches or canned fruit cocktail in interesting ways with other good food items.

The program tries to utilize the many advantages which a commodity versus a brand has in advertising, promotion, and merchandising. For example, advertising can definitely assume an editorial appearance and this adds to believability and, in many cases,

if the ad is properly designed, adds immensely to readership and recall. Gallup Robinson and Starch studies on the Board's magazine advertising in the United States show that four out of five not only had high readership or recall scores, but were the highest of any food ads in that particular issue of the magazine.

Preliminary studies on consumer ads in German magazines tell the same story. This merely proves, of course, that good food ideas presented dramatically and graphically, particularly with an editorial approach, can get good readership and thus good value for the dollars invested.

Point-of-sale material, which is an essential part of this kind of program, follows closely from an art standpoint along with the magazine or newspaper color ads, and our studies show a high degree of utilization of point-of-sale material, depending on subject, timing, and quality. Of course, we use cosponsors--other advertisers who work with us who have large sales forces to help get point-of-sale material used.

The consumer program has consistently relied on cosponsor activity and although the Board spends a little less than \$1 million a year for advertising, a little more than \$2 million accrues in advertising paid for by other food people--ads in which cling peaches or fruit cocktail appear as a major element.

We maintain a specialist to work in the area of institutional and hotel and restaurant promotion and a separate advertising and merchandising campaign is carried on in this field.

Merchandising, incidentally, is almost entirely in the area of custom-made point-of-sale material for individual multiservice unit operators.

The food page publicity program, obviously, is the first place for commodity groups of this type to invest their money. We feel we get a great deal of mileage from the dollars invested in materials used by newspaper and magazine food editors, home economists in business, and the many others who are influencers influencing other people.

Our school education campaign, working with home ec teachers in high schools and junior high schools, involves motion pictures, film strips, lesson plans, quizz sheets, wall charts, and all of the other paraphernalia designed to help teachers do a better job with less work--all the while talking about canned cling peaches and canned fruit cocktail.

The European program with major ad campaigns running in Germany and England and with public relations campaigns plus some merchandising work in Denmark, Sweden, Norway, Finland, Holland, Belgium, Austria, and Switzerland, is pretty much patterned on the U.S. method with necessary adjustments, of course, to fit the individual, national situation. In these countries we find much demand for good point-of-sale material and great trade interest in the commodity approach, particularly with the service-style ads. Here also, we confine our advertising to full pages and four color.

The Cling Peach Board works on behalf of canned fruit cocktail as well as canned cling peaches, of course, because peaches are such a major ingredient of this growing fruit pack. California canning pear growers contribute also to the Board's work for fruit cocktail.

The packs have been increasing drastically in recent years and this past year the total pack for cling peaches, fruit cocktail, and other products, including cling peaches was just under 50 million cases.

The European promotion activity will be supported, beginning this year, with contributions from the Foreign Agricultural Service and the dollar picture is roughly a \$500,000 program this year for Europe and \$1,500,000 for the United States.

It is planned that the European program will increase in the next 2 or 3 years considerably--with nearly \$50 million worth of these two canned products going into this market.

We hope that in this program of market development and promotion there are some implications at least for consumer welfare and for greater movement of very large packs and commensurate better producer returns.

Discussion: The Implication of Market Development and Promotion Schemes
on Producer Returns and Consumer Welfare

by

J. E. Klahre
Diamond Fruit Growers, Inc.

Mr. Scott's discussion of the implication of market development and promotion schemes for consumer welfare and producer returns is, as we should expect, directed toward agricultural products in general, whereas, the experience of some of us who have been asked to discuss his talk has been confined to specific products or classes of products. My experience in planning and directing market development and promotion schemes has been confined to apples and pears. My remarks should be considered in the light of this limited experience.

As Mr. Scott has implied, a serious question is involved in the economic analyses of advertising and promotion. Most treatments of advertising and promotion assume, explicitly or at times implicitly, that increased sales will occur along with increased costs. As Mr. Scott and other economists have inferred, we can only say that "if advertising and promotion costs are incurred the demand curve may shift so that, compared with the previous equilibrium situation, either a larger quantity may be sold at the same price, the same quantity sold at a higher price, a larger quantity sold at a lower price, or a smaller quantity sold at a higher price. Such a range of permissible outcome can be expected to be uncomfortable for the economist, but is alarming to farm commodity groups who are already convinced of the inevitably favorable results of advertising and promotion."

Despite the types of questions which Mr. Scott and other economists have raised, the implications are that farm-product groups will continue and even increase the use of advertising and promotion. Such activities will continue to rest as much on faith as on fact. As the national advertising and promotion bill for all goods and services continues to increase at the rate of one billion dollars a year, farm commodity groups are likely to follow the trend.

The implications are--

1. That producers of many agricultural commodities are on a promotional treadmill.
2. That promotional costs have become regular items in the producer's budget, rather than an occasional expense incurred to reduce infrequent surpluses; advertising and promotional costs will therefore raise the breakeven point for many agricultural commodities.
3. Since, as we have seen, the favorable outcome of promotional programs is by no means assured, the program must be devised to maximize producers' returns. In "Cooperative Advertising," Neil Borden says, "When an individual company undertakes advertising, it expects advertising to be merely a part of a complete program of selling and promotional strategy. Not advertising alone,

but a coordinated program of selling efforts, produces results....Advertising and sales promotion are not things apart, they should not be expected to accomplish great results when conditions within the industry create excessive resistance."

To maximize results involves among other things--

- a. The determination of promotion and marketing goals.
- b. The situation and weighting of each element in the promotional and marketing mix.
- c. Provision for "feed back" to provide for control and adjustment.
- d. Continuity.

Other speakers during this workshop will discuss the elements in effective promotional programs, so I will mention only a few of these promotional elements which are emphasized in fruit and fruit products promotion.

This is not intended to be a check list--

1. The need for the adjustment of the product and the package to the operating and merchandising requirements of the trade.
2. The maintenance of uniform standards of quality and condition.
3. The maintenance of adequate stocks throughout the season to take care of the needs of regular customers.
4. Non-speculative pricing.
5. Coordination of marketing programs by the firms or individuals who are participating in the program.

The gradual increase in the size of agricultural producing units and the rising cost of promotion make it necessary for contributing producers to understand the objectives of the promotional programs, the broad strategies adopted, and the progress being attained. Without this understanding, producer support will be difficult to maintain.

Discussion: The Implication of Market Development and Promotion Schemes
for Consumer Welfare and Producer Returns

by

Don W. McColly
Wine Institute

General Comments

Before delineating some of the problems of the wine industry as they relate to the subject under discussion, I would like to comment on the paper given at the start of this session by Professor Scott.

Generally speaking, I wish to agree not only with his conclusions but with the supporting contentions and the theories developed. However, I would like to express a thought or two which were not touched upon and which to me must be recognized as being extremely important to the subject matter. May I hasten to make clear that I also recognize that time limits any discussion or presentation and that Professor Scott labors under these limitations as do we all. Otherwise I am sure the points I raise would have been included, even though they might not have been given the importance I attach to them.

Basically, and as has been stated, it is generally assumed that the total quantity of food consumption per capita will not be expected to increase, but that adjustments will be made between types of foods. Also, that as income increases, consumers shift to higher value foods, and only to the extent that promotional schemes contribute to this shift would there be a contribution to an increase in gross returns for agriculture.

It is therefore proper to point out the limitations of an advertising effort when measured against costs of production; to raise all the economic questions and relationships between promotion schemes and production costs for the producer and the economic welfare of the consumer.

But, I believe this discussion should also recognize in the first place that we function in a competitive free enterprise system and that the competitive urge inherent in this system always has required promotion and advertising schemes of one type or another in the drive of an individual company to not just merely succeed but to become as successful as possible, to become bigger and bigger and to take for itself a larger cut of the pie regardless of the size of the pie. To me, therefore, promotional efforts have a very definite part in the scheme of things--they make a very necessary and definite contribution to the welfare of the producer.

The opening statements made little reference to population growth. I fully appreciate the fact that it is perfectly proper to deal with the term per capita as a unit of measurement. This does not, in my opinion, give proper recognition to the fact that millions and millions of new purchasing consumers are coming into the marketplace

every year--that this competitive free enterprise system will battle it out in the market place for the favor of the new potential purchasers of our commodities, and the individual company or commodity group had better plan on reaching the minds of these new buyers and on motivating them to purchase.

The supermarkets and one-stop shopping centers of today are almost reaching the point where they are mere storehouses for the buying public. Recent surveys by Safeway Stores indicate that the average shopper, as he walks down an aisle, passes 300 items per minute--one-fifth of a second in front of the item you want him to buy. This new or at least present retail approach points to the need to presell, and pre-selling means education, promotion and advertising. In the hard-selling competitive market of today, promotion and advertising are practically a part of the production and distribution system and a failure of any part can lead to loss of market and ultimate failure.

Only passing reference was made to the rising level of income in the United States. For example, in 1964 almost half (47 percent) of the present 59 million consumer units had incomes of less than \$6,000 a year, and were the people buying 24 percent of all purchases in this country. Within the next 10 years, however, instead of 47 percent of the buying public being in the \$6,000-a-year-and-under category the figure will shrink to 28 percent, while purchases themselves will dwindle from 24 percent to only 8 percent.

Consumer units earning \$15,000 or more income a year totaled only 8 percent, but accounted for 24.5 percent of dollar purchases. Ten years hence, this \$15,000-or-over income group will grow from 8 to 12 percent of the population and make about 35 percent of the consumer purchases.

I am sure all will agree that promotional programs will be of considerable value to some commodities, if they are to take advantage of the potentialities.

As Applied to the Wine Industry

Possibly all participants on this panel wrestled with the meaning or definition of the word "implication" in the title of this discussion. I know I did.

I have elected to make an interpretation which might be stated as the logical relation between promotion which supports market development and consumer welfare on one hand, and producer returns on the other. Also, my position will reflect the views, objectives, and problems of a commodity industry acting in concert through its trade association in the areas under discussion.

It also must be recognized that a commodity group representing many producers can only function in an institutional manner when dealing with promotion or market development.

The only basic reason for any commodity to indulge in promotional programs and to open and develop markets is to increase the total demand for the commodity at a price which will reflect a profit to the producer. For that demand to exist or to be increased, the consumer must realize benefits of one kind or another. Conversely, if there are no benefits to the consumer or if he does not recognize the existence of benefits, there will be no demand or the demand will lessen and ultimately there will be no return to the producer.

With the limitations and definitions noted, I will now illustrate with the product wine.

There are few products of the soil distributed and sold in the United States which are faced with the legal restrictions, prejudices of various kinds, and complete unfamiliarity with the item as is the case with wine. Adding to the problems indicated is the fact that over the years the producers of California wine, many of which are agricultural cooperatives, have been continually faced with a surplus production of its raw product--the grape.

Our problems and objectives are certainly different from those of the dairy industry or the fresh fruit industry. Everyone loves peaches and ice cream. Everyone is familiar with bread and certainly such products are not distributed under a different set of State laws and regulations in 50 States and the District of Columbia.

In 1933, for all practicable purposes and in a commercial sense, an American wine industry was nonexistent. In 1934 the industry started to produce. What was the status of the market place? What did the potential consumer know about our product?

The wine industry quickly ascertained that--

1. Millions of American adults had never tasted wine.
2. Millions had little familiarity with it except a remembrance of the fact that the family doctor had prescribed Port for treatment of a specific physical ailment.
3. Millions were opposed to its use because they had been told that to drink any alcoholic product was to suffer damnation.
4. Millions just had no interest in the subject--for or against.

It was obvious that no single producer could hope to carry on the task of informing the mass public of the benefits of wine--of creating a desire to purchase wine for use in cooking--for use as a complement to the meal served in the home or in the restaurant, and as a definite part of gracious living. All of the public attitudes had to be conditioned or changed to the end that a favorable climate existed in the marketplace so that the individual producer or brand could then create the demand for his product.

Also, an entire generation of physicians were trained and in practice without having received instruction in the medical values of wine.

How could the industry best develop a promotional program in support of market development which would benefit the consumer and the producer? It was decided that only by collective action, using a broad commodity approach, could the necessary impact be accomplished. The proportions of the task facing the wine industry were immense.

The industry supported the move by California agriculture which brought into being the Agricultural Marketing Act of 1937. This led to the adoption in 1938 of the Marketing Order for Wine. Subsequently the Wine Advisory Board conceived a promotion program on a national scale, designed to eliminate or reduce the prejudices existing and to educate the consuming public in the uses of wine.

Educational programs were developed for all consumer media extolling the virtues of wine, and special emphasis was placed on the product's use in cooking. This latter effort was on the theory that while only a tablespoonful or a half-cup of wine was needed to improve the taste of the item being cooked, the remainder of the bottle just naturally reached the table.

As the approach of the mass market matured, it was realized that special promotional efforts were needed which were specially tailored to the needs of segments of the mass market. So, such special promotions were developed and directed at such segments as the chefs, the restaurants, the food editors, the broadcast media, the trade press, the wholesaler, the retailer, the salesman, the housewife, the bride, and others.

Research was started to gather existing medical data--new research was instituted and ultimately the findings disseminated to the medical profession.

Most of these promotions were successful. Some were spectacular failures. In these 31 years the industry--the California wine producers--by its collective action and exclusive of any brand promotion, has spent in excess of \$20 million in creating a favorable attitude, in the development of a climate under which our brands have grown and prospered. Let no one think that the objective of these promotions have been completely realized. Over \$1 million a year is being expended in this continuing effort.

Restrictive laws in many States will only be repealed or modified as the result of local public demand, a demand created by special promotions. I refer to areas where the service of wine in restaurants is prohibited, such as Tennessee-- to Washington, D.C., where Champagne may not be sold on Sunday although a bottle bearing the designation "sparkling wine" is perfectly legal.

I refer to the many pockets of our population, particularly in the Midwest, where to date, many persons have had little inclination to buy wine due in part to unfamiliarity with the product. Such circumstances exist because the industry has concentrated its promotions in areas deemed to be more productive for the cost and effort expended.

I refer to the many millions of people who, market research shows, have no prejudice against the product, but who think of it as a beverage to be used on special occasions only, and to whom special promotions must be directed to use wine more often.

It is sufficient to reiterate that the task is difficult. Were it easy of accomplishment, it would be completed.

One must conclude that under many circumstances promotional efforts are not only beneficial but are necessary to develop favorable public attitudes conducive to market development. The benefits to the consumer are self-evident as reflected in an expanding demand which in itself provides a base for proper producer returns.

1933 -- No wine sales.

1954 -- Sales of 115 million gallons.

1964 -- Sales of 143 million gallons.

1975 -- Sales of 218 million gallons.

Designing, Planning, and Executing Promotion Campaigns
for Agricultural Products

by

Shelby Robert, General Product Manager
Musselman Division, Pet Milk Co.

Back in March, Jimmie Hillman called and asked me to handle this subject for the Workshop. He made it sound real easy, and so I agreed to take on the job for him. Ever since then, I have learned how much wool he pulled over my eyes and how impossible it is to cover this subject in a meaningful manner in such a short period of time.

And if that is not bad enough, I am taking the liberty of changing the subject to "Developing and Executing the Marketing Plan for an Agricultural Product." I wanted to change this title for several reasons. Particularly I wanted to use the word "marketing" in the title. The word "marketing," and I believe Harper Boyd would approve, implies movement of goods--that is, sale from one place into the ultimate consumer's hands. There is real need to recognize this implication. If goods are not moved by somebody to the consumer, the ultimate success of a commodity promotion program cannot be achieved. The original title is limited in my thinking, and proposes some restrictions on the subject, whereas use of the word "marketing" implies all phases of activities needed to accomplish the movement of goods.

The only real difference between a commodity plan and a plan for a brand actually is the inclusion of a sales or selling plan in the brand activity. I feel strongly about this, since the commodity plan cannot be successful unless it fits into the sales or selling plan for the distributive functions of brands. Another reason for changing the title is to emphasize the planning at each stage of the activity in promotion. One of the greatest failings in brand and commodity activity is in the planning phases.

My purpose this morning is to provide a backdrop or frame of reference for further specific discussion related to individual commodities later in the program. In so doing, I have assumed that my subject implies a sort of "how to" presentation; such as a "Better Homes & Gardens" approach--how to put a round house on a square lot. My purpose will not be to answer any specific question or give any standard or particular approaches or answers to all kinds of situations. The topic is much too broad for that. For example, we are dealing here with questions in promotion and marketing planning that relate to food or non-food commodities, and fresh versus processed form of given commodities. In addition, we are talking about organizations carrying on promotional activities that are producer owned and operated, processor owned and operated, and in some cases distributor owned and operated. Further, there are some that combine all three in one supporting organization. Some are true brand operations such as Sunkist. There are large budgets and organizations versus small budgets and organizations. There are national organizations and regional organizations and in some cases even local. So it is impossible to be too specific in this presentation.

In preparation, I listed a long list of ingredients for designing and executing a marketing plan. I thought that I might be able to say you should start here and end up there, but we all know full well that it wouldn't work out quite as neatly as we would like. So many and different parts of design and execution are inter-related that each part has to be considered as dependent upon the other. So I will just start with my list, keeping in mind the fact that each phase of a good plan is interrelated to each other phase; so are ingredients of a good plan.

First, I think it is necessary to start with good assistance. By this I mean advertising agency, public relations agency, and at times marketing research assistance, outside home economics consultants, and research and development consultants. A word needs to be said here in terms of relationship to the consultants or agents that are part of the team. For their assistance, whether internally or externally provided, they need to know the full story about the purposes and the needs of the industry or organization they are representing. The statement of purpose is probably one of the most important parts of developing the marketing plan. What is the reason for the activity being planned? With complete knowledge of the industry and operation, the agents can then be assigned responsibility of a specific nature and provide the kind of assistance that they are designed to provide. The analogy here is that a doctor cannot diagnose or prescribe unless he knows where the patient hurts. Neither can an agency or a research consultant be of real help unless he has the specifics of the problems and purposes clearly spelled out, and these consultants cannot do this for you. The kinds of assistance needed from the outside depend upon the size and direction of the program, the size and capabilities of the staff; and there is always the decision as to whether to employ people or use the services of an outside staff.

I would like to commend to your attention a little book published last week, "Management and Advertising Problems in the Advertiser-Agency Relationship." This was done by Booz Allen Hamilton for the Association of National Advertisers. This puts the relationship in very good perspective. The conclusion--successful marketers work in partnership with their agents. They assume joint responsibility for the profits or success of both the client and the agency. It is worth your review.

Marketing research is a necessary tool in developing a marketing plan. The better background information that is available, the better the plan can be. The more information about the problems, the more specific the plan can be. The plan cannot aim toward a target without the target being described. Over simplifying, normally I think of research in two basic realms; first, descriptive, both geographic and demographic. The purpose of this kind of research is, of course, to define target groups. Who are the heavy users? Where do they live? What are their characteristics? In other words, whom do we want to talk with, and where do they live? These target groups change sometimes rather rapidly. Markets do not sit still. They are elusive; therefore, their descriptive definition needs checking, frequently on a time-series basis. The second general, broad area of research deals with the creative end. Again, a separate speech could be made on this point. Suffice it to say this is the area where we try to investigate what to say and how to say it. Many of you could list dozens of different ways to accomplish this kind of research.

A parenthetical comment should be made here about public research that is available to organizations assisting in the marketing of agricultural commodities. The wealth of material available and the wealth of resources for research available through public institutions such as those represented here today is tremendous. There are too few people in industry who fully recognize the impact of the research which has been or could be done by the colleges and the Department of Agriculture. I am afraid that the same statement can be made concerning many commodity organizations availing themselves of these services, and it certainly is the responsibility of commodity groups to assist in directing this research in ways that will provide them the most direct assistance.

Marketing research, to my way of thinking, does not conclude its assignment by providing statistics for marketing management's interpretation. Recommendations are necessary--which places the researcher partially into line responsibility. On the other hand there is often a possibility for management to lean too heavily on research results, as a crutch in decision making. Too literal acceptance of results is also dangerous. They must be tempered with management's insights and awareness of costs and alternatives of various courses of action.

Next to the purposes of a specific program or organization, the development of marketing objectives is probably the most important part of a marketing plan. It is awfully hard to get someone to saddle himself with specific objectives, particularly in writing. The reason for this is that if you say you are going to attain a 10-percent increase in sales in a given period of time and put this in writing, some time later anyone who has seen this or has a copy to flash in front of your face can say, why didn't you attain this objective? This can be embarrassing. It is particularly hard to make specific statements of objectives when you do not control all of the factors involved in the marketing of the commodity that you are working on. This is, of course, frequently the case in an agricultural commodity program. Be that as it may, some sort of objectives statement of a specific nature needs to be developed. This needs to be of a short-range and a long-range nature. We work on the system of a drop one period and pick up one period basis. For example, in short-run activities, you might be talking about one year, and you can keep your short-range plans alive by breaking this into four quarters; and as you drop one quarter, change your plan to include an additional quarter. The same can be true of long-range objectives. At the end of a year, drop one and add one at the end. This is a convenient means of being sure that your sights are always set for a year ahead or 5 years ahead. One additional point I would like to make in terms of the importance of objectives; that is, the importance of being sure that you are in agreement with the commercial elements of the trade in the particular commodity in which you are working. When you do not have all of the elements necessary to obtain your objectives under your control, it is necessary that those organizations that do have these elements under their control agree with your objectives, so that your organization and the trade working together can assist in attaining the objectives. Again, this goes back to the important point of movement of goods.

The next ingredient that I would like to discuss is advertising. This is probably the most expensive part of most agricultural promotion programs. It is also probably the area where more money is wasted as well as where more money is made. The first problem in dealing with agricultural commodity advertising is to be sure that there is complete recognition of the way that advertising can assist in attaining the objectives. Advertising is not the cure for all of an industry's problems and must be appraised as objectively as possible. A great deal of information has to go into this, including an appraisal of industry advertising, both distributive and retail, and the amount of merchandising or sales promotion activity that the trade carries on, as well as what can be carried on by the commodity organization. Research can assist in developing the background for the kinds of approaches that might be most meaningful in developing an advertising program. In many food commodities, service advertising suggesting usages is an important approach. If this is the case, marketing research and home economics guidance is needed in the development of these service ideas. There are many differences between industries as to how service approaches can be used, primarily based on the end use of the products. There is considerable difference between brand and commodity usage of service advertising. The commodity approach is attempting to expand total consumption, whereas the brand approach is usually aimed at brand switching. There are, of course, wide variations in this. There are many seasonal products where advertising can successfully be used as a news medium. I can think of a number of cases of this. To complete the use of this ingredient, I would like to stress the importance of testing. This creates some hazards

and some difficulties, but it can also be rewarding. The cost of testing a TV commercial may be around \$2,000, which sounds like a lot of money, but this is quite small when you think of buying time on a national network that may cost \$40,000 to \$60,000 a minute.

The adequate use of public relations tools is an important part of most commodity promotion activities. The right kind of public relations activity can provide a favorable climate for all of the other activity aimed at increasing use of a particular product. Another way that public relations can assist is in overcoming difficulties or unfortunate problems that may arise from time to time in the life of a particular commodity. Examples are the problem encountered by cranberries a few years ago, and the question of fats and cholesterol. I think all of us have experienced some of these from time to time. Many commodity groups have a concerted food service activity dealing with food editors of various publications and broadcast media. The public relations experts prepare food releases for use by these food editors providing the housewife with news about how to vary her menus and, incidentally, use more of your particular product. The importance of home economics in this particular activity cannot be stressed too heavily. The development of the right kind of recipes for the specific media is a real chore, and a home economics staff can remove considerable guesswork.

In brand operation, merchandising and sales promotion activities are normally used to tie the various other marketing activities to the sales level. They are the means of implementing advertising, public relations, and other activities at the point of sale. In commodity programs, the performance is the same basic function, but here it is tying together the commodity and various brand activities. There are many organizations that have done a real good job in merchandising and sales promotion. The Cling Peach Advisory Board, for example, and the American Dairy Association from time to time have extremely good sales promotion activities. The distributive ends of their trade have backed up these promotions and capitalized on them. Another part of this deals with related product tie-ins. Cling Peach has done this with cottage cheese quite successfully through the years. American Dairy with butter and some other products has also been successful in this direction--and latest with aluminum foil. These kinds of activities stretch everybody's dollars and create interest to the consumer. Another type of sales promotion activity, which according to USDA has been successful, has been the Florida Citrus Commission's approach of cooperating directly with the branded processors and distributors. There is probably no other area of marketing activity where it is more important to work with the distributive industry than is true in merchandising and sales promotion. Cooperation with your industry is no guarantee of success, but if there is lack of cooperation, there is certainly guarantee of failure.

An important part of any long-range marketing plan must be research and development for new products or usage. This is becoming more and more the case in more and more commodities. I don't think that we can say that just because we are in a commodity program rather than a brand that we couldn't work in the area of new products. I would like to cite just one example; the Florida Citrus Commission was part and parcel of the development of frozen concentrated orange juice processes. The name of the Research Director at the Florida Citrus Commission is on the public service patent. We recognize that public service patents may create problems at times. On the other hand, USDA holds the patents under which practically all of the dehydrated mashed potatoes are manufactured. This, by the way, is under two patents--one for potato flakes and the other for granules--developed by the Eastern and Western Research Laboratories. There are many problems in research and development activities on the part of commodity organizations. It is hard to get funds committed to long-run approaches. In addition, there may be real proprietary attitudes on the part of various industry segments. The success in these areas may be related to whether the commodity program has producer, processor, or distributor support and the nature of the components of the industry. Marketing control of new products is essential.

Any marketing plan or program in implementation should have built into it some measure of success or failure of the activity. This, of course, is extremely difficult for short-range activities. However, some measures of longer range activities can be developed. Per capita or total movement estimates are the most usual means of measurement but may not be the best. If continuous movement data are available, consumption by target groups can be a measure. Most programs in the commodity areas recognize the longrun nature of changes in overall consumption. Slowing a downward trend may be real success, but how can this be measured? For this reason, changes in attitudes on the part of target groups are about as good a measurement as can be obtained.

Jimmye asked me to comment briefly on organizational structure for promotion activities. There are a myriad of possibilities in this area. One, of course, is the brand management approach, which has been used by the American Dairy Association for some time. The advantage of this approach in a commodity organization is that one brand manager can coordinate all of the facets of a program for his particular product or group of products. This, of course, relieves general management from detailed coordination of all facets of the activities. The responsibility of the brand manager is then to bring together advertising, public relations, sales promotion, home economics, market research, and all other facets of his activity into a coordinated program. In most single product organizations, this normally is handled through a marketing manager or through coordination by the general manager. In some cases, the responsibility for planning and execution is almost totally handled by outside agents. Most agents, however, indicate that their activity can only be as good as the guidance and leadership that they can get from the client organization. The importance of strong guidance from within cannot be overemphasized.

I am sure that the brief discription given above may indicate the simplicity of individual activities. This may be the case--the individual actions may be simple. The real problem in marketing planning is developing the right organization for most efficient decision making, then applying each of the elements of the marketing plan to the right degree at the right time with the correct amount of effort. This is where the coordination and planning function becomes most important. This is also where the complexity of planning and execution comes in. Again, any individual action may be quite simple and direct. On the other hand, the coordination and direction of the multitude of activities necessary for a successful operation take some doing. This is where real marketing management is needed.

In summary, I have tried to emphasize the importance of planning--the importance of coordinated activity of various parts of a total marketing program. In this marketing program, the place of new products and research and development activity has been emphasized. The measure of success or failure of individual actions has also been stressed. Again, my purpose has not been to answer specific questions or give particular answers because of the broad aspects of the topic assigned. On the other hand, my purpose has been to provoke some thought concerning the mechanics of operation and to provide a frame of reference for further thought and discussion on how to develop a marketing program for specific products in this elusive marketing complex with which we live.

Designing, Planning, and Executing
Promotion Campaigns for Lairy Products

by

William Martin
The Borden Company

The designing, planning, and executing of the promotion campaign for any agricultural product --- as Shelby and other speakers have indicated --- are interrelated with all other phases of the overall marketing program for such a product. I, too, shall discuss all aspects of marketing --- in my endeavor to indicate the many problems encountered in marketing dairy products from the dairy processor point of view.

Perhaps the best way to point out the problems in marketing dairy products is to go through the step-by-step procedure the marketing management team takes a new product. When an idea for a new dairy product is presented the first step is to determine whether there is a consumer need for such a product--and if so, what type of product positioning has the greatest appeal to consumers.

To digress for a moment--I think I should explain what I mean by "product positioning" and its implications. It is that part of the descriptive statement presented to the consumer when evaluating a new product concept or idea that describes the product's specific physical and psychological attributes and/or the suggested times and types of uses. Hopefully, at least one of these product attributes and the suggested uses are a known product plus over any competitive products--if any such products are on the market--for any "me too" product must have a specific product appeal that meets a consumer need that competitive products already on the market do not have. Just to have a good quality product that equals competition is not going to give a product a very big market share, assuming their distribution patterns are the same.

The task of creating the descriptive statement for the consumer product evaluation study poses our first problem. That problem is--what can this dairy product be called and how can it be described legally, not only to meet Federal standards, but also the many varied State and even local standards that exist throughout the United States? I doubt that any other types of agricultural products have the variation of local restrictions that dairy products do. Obviously, accurately estimating what such legal restrictions will be will vary by the specific product and its relationship to existing products where such legal definitions have already been clarified. But this problem in defining the product, for such consumer research, is often much more difficult for a dairy product than for most other agricultural products.

Now let's assume we come up with a favorable consumer reaction to the basic product idea--and through research and development obtain what we think is a satisfactory product. Our next problem is to determine whether consumers will accept it as packaged and for appearance and flavor.

We are limited to the types of product home placement tests that can be conducted with refrigerated dairy products for in-home product evaluation by all family members. Placement tests through consumer mail panels are not possible, so personal product placement tests are required.

After consumer acceptance of product preparation, packaging, quality, and taste are obtained our next step is test marketing.

Since the dairy business is primarily a local business, there are many more competitive product variations on the market between cities and towns, even in the same State, than there are for most food products, which predominantly have major national brands prevailing with some minor local and regional competition. Therefore, consumer frame of reference for a new product evaluation differs on a market-by-market basis, so that the product test-marketing problem not only is to learn whether there are any differences in attitude and acceptance by regional, ethnic, age, and income groups, by size of family, and light versus heavy users of the product, but we must learn--to cite an example--how a new low-fat milk will do in a 2-percent fat milk area versus skim milk areas, as well as areas that have different pricing conditions, etc., in cities where such competitive situations vary.

The net result is that we must recognize and accept the fact that these problems of competitive variations, etc., exist on a market-by-market basis, and we must evaluate any test market findings accordingly. In most cases the research findings will give a pretty good clue as to what to expect in most market areas, particularly in each region in which test marketing is done.

In test marketing again we are faced with legal problems. What can legally be said in advertising and promotion copy, where on the packages specific wording is allowed, and even the size lettering copy wording must be, all must be taken into account for Federal, State, and local regulations.

Another problem for consideration at this stage is selecting test areas where variation of types and styles of refrigerated cabinets exist, so we can learn the effects they may have on the type of package and package copy legibility. If store audits of the test product versus competitive products or competitive type products are to be made, a tight store audit control of store invoices must be maintained with any items delivered on a daily basis to the store to assure accuracy of audit results.

Another problem that confronts the dairy processor is setting up realistic competitive store audit situations with a representative sampling of stores, since the competitive activity in any one city varies on a store-to-store basis, and also what may be found to be competitive activity in one city may not competitively be applied in another city 30 or 40 miles away.

As Shelby mentioned--"In brand operation, merchandising and sales promotion activities are normally used to tie the various other marketing activities to the sales level. It is the means of implementing advertising, public relations, and other activities at the point of sale." However--it is important to point out that any such activity in test market areas should, of course, try only to duplicate and not exceed the amount of each form of advertising or promotion that is planned to be used and can be afforded when regional or national expansion is made.

In planning the marketing plan to be used for the test market operation the processor must make a number of decisions, some of which are directly related to the timetable scheduled for the product's marketing program. The timetable is often designed in accordance with:

- (a) Type of product and its frequency of purchase cycle.
- (b) Competitive conditions. That is--are we striving to be the first on the market with this product or is our brand a "me to"?

- (c) How similar is this type of product to other forms of the product already on the market, based on available background data on usage habits, including the frequency of purchase cycle?
- (d) Anticipated seasonal sales performance of the product. For most new dairy products this obviously would be known, since they usually are a different form or new flavor of an existing product. For example--if you would come up with a good new flavor of cottage cheese in January your timetable to capitalize on the next Lenten season would, of course, have to be one in which much testing would need to be curtailed.

Once the timetable has been established many other planning decisions must be made. These include:

1. Setting the marketing goal and objective for the product.
2. Types of product testing to be done.
3. Planning the advertising and promotion campaign.
4. Amount of copy testing to be done--which, incidentally, we do jointly with our advertising agencies.

As Shelby pointed out--"The cost of testing a TV commercial may be around \$2,000, which sounds like a lot of money, but this is quite small when you think of buying time on a national network that may cost \$40,000 to \$60,000 a minute." The same principle--of course--can be applied to copy for radio, magazines, newspapers, or any other media.

5. Based on the promotional activities and advertising media to be tested, determination must be made of the number of market areas in which testing must be done.
6. Whether time will permit conducting store audits using the Latin Square method or whether less precise auditing methods must suffice.
7. Based on background data known about the product category, in what regional areas should the testing be done?

Also specific markets must be chosen with anticipated State and local legal restrictions and the competitive picture in each market in mind.

Once the test marketing operations have reached the all-important repeat purchase cycle stage then consumer interviews are conducted among triers and non-triers. If various advertising and promotional methods and messages have been tested in different markets, their effect on brand buying and usage habits can be compared. It is also a good idea to go back into the test markets periodically at a later date to do additional consumer research if the product distribution is spread regionally or nationally since these markets--perhaps with different promotion testing--have "lead" time in length of product exposure time and may tip off problem areas that might soon be expected at the regional or national level.

Shelby Robert made the statement speaking of trade associations that, "There is no other area of marketing activity where it is more important to work with the distributive industry than is true in merchandising and sales promotion." This is also true looking at it from the value to the processor in being able to tie in with the trade associations and their advertising and promotion campaigns, many of which are specifically designed with the processor tie-in campaigns in mind.

Home economists at the commodity and association level and with the processing companies do a great job in finding new ways to induce housewives to utilize specific dairy products in new ways, many of which tie in with other agricultural commodities. For example--attractive menu suggestions of other foods to serve, such as the combination of cling peaches with cottage cheese, created by The Cling Peach Advisory Board and the American Dairy Association, also advertised by the dairy companies. Public relations departments in firms such as ours, commodity groups, and trade associations such as the American Dairy Association also do an incredible job in keeping the public informed of the new ways to utilize various established dairy products, and in educating the consumer about the advantages and needs of newly introduced dairy products as well as giving them recipes for uses as an ingredient, etc.

As you can see from all I have said, planning and a coordinated team effort involving many departments, our advertising agency for the product, and other outside agencies, is required to successfully promote any product brand.

Timing, too, is a very important phase of this coordinated team effort. Much harm can be done by having the advertising run and finding the product has not been put on the store shelves. Not only does this cause ill feelings by the consumer toward the product but it can also create bad feelings toward the brand name and affect the sale of all products of the brand. One reason why this happens, of course, is because of audience "spillover," particularly from test market areas to other fringe areas outside of the distribution area.

This is particularly true of a television signal--which often travels to a 100- or 150-mile radius of the test city. Consequently, this is a factor that must be recognized when test markets are selected where television advertising is planned.

There are--of course--other types of marketing research studies that can also be conducted, such as research of the product name, package design studies, and functional package performance surveys. I have not dwelled on these because these are phases of the marketing program that may or may not be done--depending on that all-important time factor related to the competitive picture, decided by top management after evaluating all factors.

Perhaps I have put too much emphasis on new products in my comments. However, many of the problems that apply to new products also apply to established products. Concept testing for repositioning, product testing to improve quality, copy testing, packaging, and consumer studies to evaluate consumer usage and satisfaction--to name a few--all should also be done periodically with successfully established products.

In summary, the points I wish to emphasize are:

1. Local competitive situations and legal problems at Federal, State, and even at local levels present many difficult problems that must be coped with in the promotion of a dairy product.
2. Planning of the marketing program within the framework of the logical timetable, dictated primarily by the competitive picture with teamwork and timing of all phases of the program is vitally important for product success.
3. Promotional tie-ins with trade and other sources are vitally important as is assistance from all available service departments and outside agencies.

Designing, Planning, and Executing
Campaigns for Processed Foods

by

John G. Tobias
California Cannery & Growers Association

Dr. Robert--very wisely, I think--expanded the original subject and slanted his remarks to ALL marketing phases of moving agricultural products into consumption. This, of course, has allowed the five of us at this table to discuss the actual nuts and bolts of promotion programs as they apply to the commodity classification that we each represent.

Therefore, I hope to outline for you very briefly--and as concisely as I can in a few short minutes--the blueprint for a promotional campaign on processed foods.

Obviously, the term "processed foods" encompasses many, many categories found on supermarket shelves--from a box of cereal to a bottle of steak sauce; from a can of peaches to a jar of synthetic powdered drink base, such as TANG.

Processed foods are "processed" from a myriad of raw material sources, many of them, of course, agricultural products. However, they all have several major similarities:

First--They come in some sort of package with descriptive labeling.

Second--They all compete with each other on the grocer's shelf for a share of the consumer dollar. And--

Third--For the very reason mentioned in point two, advertising and promotion are absolutely essential in order to maintain shelf position and share of market.

This may be a good time to digress for just a moment and take a quick look at California Cannery & Growers--the new, expanding, and vital organization that I represent. For in a very real sense, apropos of the competition I just mentioned, California Cannery & Growers is really competing against itself!

We are a processing and marketing cooperative owned by about 1,100 California fruit and vegetable growers. Our volume is \$100 million annually, all in California agricultural products, from A to Z, from Asparagus to Zucchini. Consequently, we must market our fruits and vegetables in several different processed forms.

First--We are big private label sellers of retail size products. Obviously, the canned peaches we sell to a national or regional chain under his own label will actively compete on the shelf with the second phase of our business, which is--

Brand Sales We have several well-known advertised brands sold regionally or nationally, notably, F & P, Heart's Delight, Diet Delight.

Third--We are big suppliers to remanufacturers of other processed foods. We produce drum tomato paste, for example, used in barbecue sauces, salad dressings, soups and the like. And fruit concentrates used by baby food manufacturers. Certainly these items, too, compete for that consumer dollar in the stores. And--

Fourth--We do a big institutional business to wholesalers supplying the restaurant trade. Here again, the person eating a meal away from home is not spending his dollar on a processed food found in a grocery store.

Brand selling, quite obviously, is the phase of our marketing mix where intensive advertising and promotion, or lack of it, means success or failure.

Merchandising processed foods is really not very different than merchandising any other packaged product to the consumer--as, for instance, drug or cosmetic products, alcoholic beverages, sportswear, radios, or what have you. With perhaps one noticeable and painful exception. Margins in the canning business being what they are, our budgets are pathetically small by comparison with, let us say, a cosmetic. As a Brand Manager, I drool when I think of the many millions of dollars allocated to the promotion of a new Revlon lipstick or Lady Clairol hair spray!

Early in his remarks, Dr. Robert made one statement which I should like to repeat--
"One of the greatest failings in brand and commodity activity is in the planning phase."

How very true this is! A brand selling program can be designed quite easily. It is the planning stage that is so critical and requires so many long hours on the part of the entire planning team--the brand manager, all advertising agency personnel, sales promotion or merchandising people, market research people, and the field sales manager who must carry the program to his sales force, and ultimately to our customers.

As I have said, designing the program is relatively simple. We know how many cases of goods we want to sell throughout the year. We know our peak consuming seasons, where our better markets are, how many extra cases we expect our brokers to sell in any given market during the promotion period. We know how much money we can afford to spend, for our projected budgets already have board of directors approval. We know that we must make any promotion attractive to the retail fraternity for the utmost in display help at store level, plus features in their own ads. And lastly, we know that we must tell our story to the ultimate consumer through some form or forms of advertising media.

How, then, do we plan all this? In our organization, the brand manager is the "master of ceremonies," so to speak. It is his sole responsibility to design the program to begin with, based on the overall marketing plan which has already been formulated and approved by top management.

Planning must begin at least 6 months before the campaign. A roundtable type of meeting is called, including the brand manager, his market research man, merchandising or promotion services people, and the account supervisor of the advertising agency. The program is explained to all--what we want to do, where we want to do it, and so forth, in short, the design. Specific assignments are then made.

First--Our market research director is to work closely with his ad agency counterpart and commence concept testing in the field of various advertising themes--the "what to say and how to say it" that Dr. Robert mentioned earlier.

Meanwhile--the agency account supervisor should be working with his media department, starting work on media selection, regionally or nationally, as the case may be. As soon as concept testing is complete--this usually doesn't take long--and a theme--a "what to say"--has been selected, he is in a position to work rapidly with media and creative people piecing together the campaign. That is, the "how to say it and Where to say it." Very often, incidentally, a good creative agency will prepare at least one alternate plan for presentation to the client. Alternate plans not used for one reason or another are often used as a good starting point for the next year's ad campaign.

While all this has been going on, the brand manager is piecing together his sales promotion program. Decisions are finalized on distributor case allowances to be granted during the promotion. The merchandising manager is working with the brand manager on acceptable point-of-sale material to be used, such as shelf-talkers, stack cards, and so forth. Very often attractive brochures are prepared which contain all the promotion information along with ad reprints and samples of point-of-sale material. These are very effective at the trade level and are used by brokers and company sales personnel in presenting the entire story of the promotion to buyers and chain merchandisers.

Now--we are approaching the "moment of truth." The agency presents the finished campaign for client approval. This is eventually forthcoming after hours of tugging and hauling, soul searching, compromising, accompanied by gallons of coffee and too many cigarettes. The planning is done, and the final phase begins--the Execution.

The sales manager and his regional managers are assembled and the entire program is carefully outlined. It is imperative that the field sales force understand every facet of it carefully, for they in turn must present it to brokers and the trade across the country. They are also responsible for continuous follow-through for the entire promotion period, feeding back results and trade comments to the home office so that the success of the program can be evaluated by sales and brand manager alike. We are always learning, and mistakes made one year will never be repeated in subsequent years.

All of the foregoing comments have been an over-simplified blueprint for the average promotion campaign for canned foods. I believe it to be the basic pattern followed by most major food processors. In conclusion I would say simply this--my own 15 years in this food business have been extremely gratifying. Many methods and techniques have changed--and many more will change in the future, and all for the better. Moving millions of tons of products from the farm to the home is truly a dynamic and exciting big-league industry.

Designing, Planning, and Executing Campaigns
for Fresh Fruits and Vegetables

by

Joe Brownlow, Manager
Washington Apple Commission

It is very difficult, if not impossible, to discuss fresh fruit and vegetable commodity promotional programs in general terms.

They vary widely with each commodity--in terms of volume, the perishable nature of the product, length of season, geographical marketing pattern, importance to the retailer, familiarity to the consumer, competition from within the same generic family, specific handling and packaging problems...and in a variety of other areas which determine the broad objectives of each program and the methods of going about accomplishing them.

I wouldn't presume to have an opinion, for example, as to a "sure fire" method of developing a broader market for Olalla berries, or leek, or celery root. And I surely sympathize with the man who has to wrestle with the problem of market development and promotion for a commodity as perishable as cherries or strawberries or melons.

Basically, though, I think most all fresh commodities share the same objectives in their promotional programs--

1. Need for more consumer education on use and preparation.
2. Better handling and better presentation of the product at retail. Better shelf position.
3. A continuous flow of communications to and from the market place.
4. More orderly marketing, marketing stability--all to the end of better returns for the producer.

Much of what I say in my few minutes this morning will relate to commodity promotional organizations with which I am most familiar--the Washington State Apple Commission, and the Oregon-Washington-California Pear Bureau. They are very similar in many respects. In both cases, the promotional program has assumed many functions which normally would fall in the field of marketing.

Advertising, yes. A promotional service for retailers, of course. A food-page publicity service. But beyond these basic functions, both organizations provide field contact, an industry reporting service, continuous communications with the trade nationally which is so important in maintaining market stability and accomplishing greatest returns for producers.

One other important similarity--and this is essential to me in gaining anything like maximum effectiveness from a commodity promotional program--is the fact that apple and pear producers exercise a very high degree of control in the marketing of their

products. The modern apple and pear orchardist has long since ceased to be simply a farmer, a producer--growing and harvesting the product and then hoping for a favorable return from the commission merchant.

Today's orchardist is a businessman, with a tremendous investment in his apple or pear factory. He is very closely attuned to the market, competition, the general business climate, and the outlook for the weeks and months beyond today.

I'm sure you can readily see why, in view of all this, a full-time, year-round, professional market development and promotional program is important in the producer's eyes. The tendency to bigness, which has been so pronounced in the retail food business during the last 15 years, has resulted in fewer fruit buyers. Brokers, jobbers, and wholesalers are declining in numbers and relative importance.

The producer and marketer of Washington apples and West Coast pears no longer can feel secure in market representation provided only by terminal market brokers and jobbers. His Apple Commission and Pear Bureau promotional representatives give him full-time market representation. They are a necessary part of his marketing machinery. Their cost is part of his sales cost. They are his contact with his customers, his eyes and ears.

Supply and quality have a very great bearing on determining the market for any fresh fruit, of course. But the intangible in what actually makes a market often is something psychological--the confidence to turn down business, the confidence to wait another day or another week, or even longer...for another quarter or half-dollar per package.

The Washington State Apple Commission and the Oregon-Washington-California Pear Bureau play a very important role in building this marketing confidence. This is the "cohesive industry force" to which Kent Christensen alluded in his remarks yesterday. It works. It contributes immeasurably to market stability, and to better producer returns. It relies on close liaison between the Apple Commission and Pear Bureau, their producers, and their marketing agents. And on trained promotional personnel, in almost daily contact with the producing areas, to insure that the information that they are conveying to retailers and wholesalers is accurate and current.

This program can't be built overnight. It perhaps isn't possible among many fresh commodities, for some of the reasons I mentioned at the outset this morning. But it works for us, and I'm sure it works for many others in the field of perishable commodities promotion.

Advertising is basic in our own commodity program. Trade advertising, both in trade publications and by direct mail, we think is one of our most important and productive functions. We have an 11-month marketing season in the Washington apple industry, and trade communication is almost constant throughout that period.

Consumer advertising, though it uses only about 25 percent of our total annual budget, is the vital force that much of our promotional work revolves around. We expect consumer advertising to build the Washington State brand image, to help justify the fact that our apples are more expensive than others. Our costs in the state of Washington are high, and they are going higher. The result is that Washington apples must retail every day at or near 19¢ a pound, if the retailer and the apple producer both are to realize a fair return. This makes our apples the most expensive volume fruit in the retail produce department, and consumer advertising periodically throughout the marketing year is essential in providing marketing velocity on particular varieties, sizes, and grades.

The question often is asked, "Are we helping sell other apples with our Washington State apple advertising and promotional work?" Of course--but we have no other choice. We have apple competition the year around. It is neither feasible nor desirable for us to wait the other fellow out.

How do we gage results from a program such as ours? It isn't easy. There is very little one can prove, because of all of the variables involved in marketing a fresh commodity. Net return to the producer, of course, is the best gage . . . but it doesn't always provide a clear picture because of the difference of crop size, crop quality, and competition from other apple-producing areas.

The best index to our performance, in my opinion, is the degree of market stability that we enjoy during a given year . . . how successfully we dispose of our problems in small sizes, large sizes, off-grade fruit, etc.

The record on the season just now concluding is generally very good. In the face of the largest U.S. apple crop in many years, a "normal" Washington State crop and near-record crop of delicious apples throughout the country . . . the market on our Extra Fancy Red Delicious was constant at \$4.25 from the start of the season until April, when we commenced to see the normal price improvement which goes hand in hand with Controlled Atmosphere storage openings.

On the other side of the coin, we saw a depressed market on our Winesaps, particularly the small sizes. On balance, however, it has been a very successful marketing year and we feel that the Apple Commission program of communications to our customers throughout the season has been instrumental in making it so.

Are we increasing consumption of our products? The record will show that we are not--but that is not necessarily our objective. We sell everything that we produce, in one way or another, every season. Our goal is to increase demand and distribution, to the end that we realize a greater return. I can cite two examples of outstanding accomplishment in this direction--one concerning apples and the other pears.

Until a half-dozen years ago, we produced relatively few Golden Delicious apples in the State of Washington. Annual production averaged around 1,000 carloads. Approximately 85 percent of the total was marketed in our top 10 terminal markets. New York City alone consumed more than one-third of these luxury-priced Goldens. The apple was virtually unknown in much of the United States.

Consistently higher returns led to increased plantings of Goldens. Overnight, our production doubled, and doubled again. For the first time we had the volume which made advertising and market development work logical and desirable. The Apple Commission undertook a program of retail store sampling, trade promotion, consumer advertising--introducing Golden Delicious in hundreds of cities for the first time. This coming year we will market four times as many Goldens in the United States as we were selling 7 years ago . . . and the figure will double again within the next 2 or 3 years. Advertising and trade promotional work by the industry's Apple Commission proved themselves in this instance.

A second example concerns Winter pears. Prior to World War II, approximately two-thirds of the West Coast Winter pear crop was exported. During the war, the pear industry had the Herculean job of developing new domestic markets. Their job was complicated by the necessity for ripening and proper handling of the d'Anjou pear, the principal Winter variety here on the West Coast.

Winter pears now are a staple fruit item in virtually every major supermarket in the United States. Less than one-third of the total U.S. crop now is exported; the domestic market is much the better of the two. This is the most outstanding example of market development by an industry commodity promotional organization that I know anything about.

What about the cost of these programs? The Pear Bureau promotional assessment is figured at the rate of 8¢ per packed box. That's one-fifth cent per pound. In the State of Washington, apple producers will be investing nearly 6¢ per packed box in advertising and promotion, commencing next Fall. This figures out to be one-seventh of a cent per pound.

You can readily see that the cost of these advertising and promotional programs does not materially add to the retail price of pears and apples. But we hope that the increased demand and distribution that they accomplish results in an increased producer return of at least one cent per pound.

We have no way of proving it, but we are confident that producers are realizing this kind of return from their investment.

Evaluating Response to Market Development
and Promotion Programs for Agricultural Products 1/

by

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Of all the uncertainties surrounding corporate management, few have grown as fast as those in marketing. In recent years marketing forces have assumed an increasing share of many a company budget while management's ability to evaluate those forces has actually decreased. Back when the sales call or the mailed catalog was a manufacturer's only way of promoting sales, he could usually measure its contribution to his profits and set future budgets accordingly. Today, when advertising has largely replaced salesmen or direct mail as the chief marketing force, virtually no large manufacturer knows how much of his profit was caused by his advertising. Marketing effectiveness has simultaneously become much more important to the well-being of the firm, and much more difficult to measure.

As often happens when vital knowledge is hard to obtain, other knowledge has been used in its place. The typical well-researched marketing budget is divided among promotional forces not according to their contributions to sales or earnings but according to their performance on some other measure that is thought to reflect selling power. Advertising, for example, is generally evaluated on its ability to create awareness, teach sales points, change attitudes, or otherwise communicate. Users of these methods assume that the better the advertising communicates, the more it will sell. This assumption is reasonable on its face, but as recent studies have shown, not always true:

"Two years ago Du Pont advertised Lucite paint only by newspaper and television in nine groups of three markets. Each three-market group received one of five possible levels of expenditure in each medium. One group of three cities received no TV and moderate newspaper advertising, a second group of three cities received no newspaper and moderate TV advertising, and each of the other seven groups received a different combination of amounts of both media. About 10,000 persons were interviewed by telephone before and after the campaign, and sales were checked in all 27 markets throughout the experiment. As expected, the more advertising in either medium, the greater was awareness of Lucite. However, advertising on TV communicated knowledge about Lucite but did not significantly affect its sales, while advertising in newspapers communicated no knowledge of Lucite but did significantly increase its sales! It was concluded that although awareness may have been a necessary condition for purchase, recall of facts about Lucite was not." 2/

1/ See "Must Advertising Communicate to Sell," Harvard Business Review, Sept.-Oct., 1965, for an extended version of this paper.

2/ Malcolm A. McNiven, "Post-testing Media Effectiveness," a speech given at the Eleventh Annual Marketing Conference, (New York, National Industrial Conference Board, September 1963).

Lest We Forget

Once upon a time, in a very large city, there was a very large company that had a very large number of sales. Happily this company also had a way of measuring the effect of its advertising on this very large number of sales and each year the company used these measures to decide how much advertising to spend on each of its different products the following year.

Years passed, and after a while the company couldn't measure the sales effect any more. People began to doubt that the company had ever done it. People began to believe that the sales effect of advertising was like the unicorn or mermaid--something heard of but not seen. If it existed it was a realm as remote as Camelot.

But this is no fairy tale. The very large city was not Camelot but Chicago, the very large company not that of the round table but Sears, Roebuck and Company. The time was not the days of chivalry but the days of mail-order. Back when its only advertising medium was the catalog and its only way of making sale was through the U.S. mails, Sears could and did measure with precision the sales resulting from the space assigned to an item in the catalog. They increased or decreased that space according to the item's sales in the previous period. They didn't worry about other factors that may have caused these sales, because such factors didn't exist.

Today the proposal to measure the sales effect of advertising is received with so much skepticism and counter-argument that it may be instructive to ask why this proposal was accepted so readily by Sears. The answer is clear. No one questioned the fact that advertising's sales effect had been measured simply because advertising was the only variable that could have caused a sale. With but one advertising medium and but one medium of purchase, Sears had created a situation in which the effects of advertising could be observed.

Today almost no one advertises in such a vacuum. No one claims that advertising is the only factor that causes a purchase. We know that a purchase has many causes and that "how to measure advertising effectiveness" means "how to isolate advertising's contribution to sales." Sears did so when advertising was literally the only possible contributor to new sales. Can the modern marketer do so in a day when advertising is only one of many controllable factors by which he can influence his own or his competitor's sales? And when beyond these lie many more additional factors he cannot control but which nevertheless influence sales too?

The answer is yes, sometimes. Obstacles like these have not dissuaded investigators in other fields. Most effects we prize have many causes, but their individual contributions have been weighed nevertheless. Experiments in chemistry, physiology, medicine, industrial technology, and, most dramatically, agriculture, have shown that the existence of uncontrollable causes is not an insurmountable barrier to learning the effects of controllable causes.

The design of experiments is a complex process but its aim is as simple as that of Sears in the days of mail-order: to create a situation in which to observe the contribution of one cause to an effect of many causes.

"Two new products, Chicken Sara Lee and Lestare laundry bleach, were advertised in a Fort Wayne newspaper for 20 weeks at four different levels. According to the section of town he lived in, a newspaper subscriber could have seen each advertisement 20, eight, four or no times. Some 6,000 interviews found that advertising induced awareness followed by changes in information and attitudes, but that none of these

measures was related to subsequent sales. As it turned out, purchases of Lestare were larger in that part of the city which received no advertising." 3/

"A major advertiser exposed a random half of "a large number" of randomly selected markets to 50 per cent more advertising than the other half. One old and one new product were advertised in the same medium for nine months. Eleven waves of 500 interviews each in both experimental and control markets found that the added advertising sharply and temporarily increased knowledge of a new slogan for the old product, but did not affect knowledge of the new product's slogan. Favorable beliefs, such as that the product was a good value or attractive-looking, increased for both products but the increment was maintained only about the new product. Increased advertising of both products was found profitable in terms of added sales, which rose and fell concurrently with changes in knowledge." 4/

These cases show that advertising can communicate in ways not all of which necessarily lead to sales. Knowledge of the advertising message is only a sometime reflector of sales power, and even changed awareness of the brand may not be a necessary condition for an increase in sales. Must we communicate to sell? The answer to be drawn from these disparate findings is the familiar one that circumstances alter cases. To understand how advertising may communicate but not sell, or fail to communicate and sell anyway, we must examine the actual operations by which these terms are defined.

Operational Definitions

Which operations define "communicate"? Usually someone asks a sample of the target population to recognize, recall, rate or otherwise give evidence of what they know or believe about the content of the message to be communicated. The message is then exposed to a random half of the sample and the investigator surveys the same people with the same test to see whether more increase has occurred among those exposed to the communication than among those not exposed (see Figure 1). If so, this larger before-after difference constitutes a measure of how well the message got through--a measure, in fact, of communication. There are operational gaps in this definition (for instance, what exactly is meant by "exposed"?), but on the whole, it is an intuitively and perhaps legally satisfying definition of an otherwise vague process. And it can be defended by another operation: if 100 behavioral scientists were asked to operationally define communication, most of them would come up with something like this double before-after design.

An operational definition of sales is easier to spell out. A sale can be what philosophers of science call a point-at-able event--something so obvious that we define it by the operation of pointing at it, and agreeing that it has occurred. Water boiling, a stone hitting the ground, and the position of a pointer on a dial are example of such easily defined events. A housewife buying a pound of salt is similarly point-at-able.

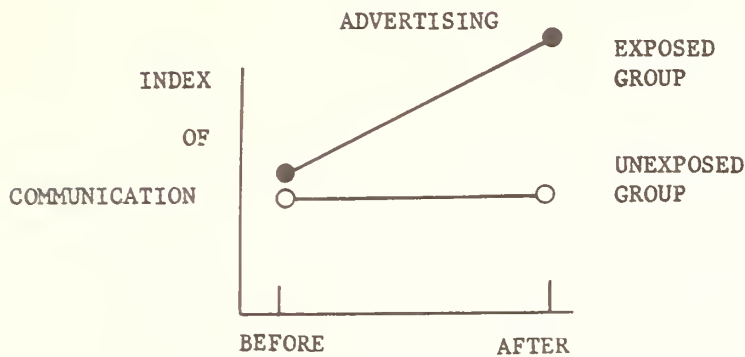
A housewife receiving a message through her television set is a different kind of event. Observers would not necessarily agree about the exact moment of its happening, nor would they be able to agree on its extent or other attributes. They would have to

3/ John B. Stewart, "Repetitive Advertising in Newspapers: A Study of Two New Products," (Boston, Harvard Business School, 1964).

4/ This and the other two studies in this section are summarized in: Jack B.B. Haskins, "Factual Recall as a Measure of Advertising Effectiveness," Journal of Advertising Research, March, 1964, Vol. 4, No. 1. All studies cited in this article, while referenced individually, may also be found in the 103-item annotated bibliography appended to Martin Mayer's The Intelligent Man's Guide to Sales Measures of Advertising, (New York, Advertising Research Foundation, 1965).

Figure 1

AN OPERATIONAL DEFINITION OF COMMUNICATION*



*Note: The groups must begin as random halves of the same sample.

resort to the more complicated definition in terms of experimental design in order to detect its occurrence. Even then they could not locate it specifically in time.

Sales, however, are not often observed as they occur. It is easier to ask the respondent about her past behavior and accept her word, especially if it is backed by such evidence as a bottle or package. Or, to obtain an aggregate measure, there is the simpler evidence of the change in stock of retail outlets, as reported by auditors like those who work for the A.C. Nielsen Company in the United States and the Attwood Group in Europe.

So in the aggregate, communication must be measured by two surveys within which the message to be communicated occurs, while sales is often estimated from the difference in stock of a sample of retail outlets. Let us accept these oversimplified definitions for the moment and see how this changes our original question.

Must we communicate to sell? This translates into something like: Must we observe a larger before-to-after difference in the exposed group than in the unexposed group before we observe a significant shift in brand share as reported by audit?

The surprising answer is that much of the time we cannot "communicate" before we "sell." Effective communication may be received before the purchase, but our measures are unable to show it. Consider the motorist who spies a billboard for a certain brand of gasoline just before he pulls into the station. He gives a survey researcher no chance to detect his receipt of that communication and its effect on his awareness, attitude, or recall before he buys his gasoline. While this is an extreme example, other purchases not of the impulse variety fall into the same pattern. For them the interval between communication receipt and purchase is usually shorter than the interval between the before and after phases of the typical survey.

To the extent that this is so, communication change cannot serve as a predictor or leading indicator of sales or brand share. An advertiser who regularly obtains both attitude and sales measures will, if his advertising is communicating, see these effects in sales increases before they turn up as communication changes. These changes cannot be detected until the "after" survey and this survey occurs not only after the advertising but after the purchase of the product.

This means that attitude change will sometimes be observed to follow change in brand share--an apparently paradoxical result. Some advertisers have obtained such results but have not published them, perhaps partly because they contradict the common sense view that communications change precedes sales change. As shown here, so it may. But because its measurement takes time, it lies undetected until after sales change has been observed.

Post-purchase Changes

There is yet another reason why attitude change may be observed to lag rather than lead sales change. Recent purchasers tend to change their attitudes after experience with the product, to justify this choice to themselves. They seek out and remember more relevant advertising than do nonpurchasers. ^{5/} New prospects also collect information prior to making a decision, perhaps about several products. But both recent buyer and prospect are likely to show up in sales change before they do in communications change simply because, as noted before, of the lag between surveys. By the time the after survey gets around to the prospect, he may already have become a buyer. By that time experience with the product has affected his attitudes ten to a thousand times as much as his exposure to the advertisements or commercials. Even a few such recent purchasers in the after sample could put the attitude change score much higher up the scale than it would have been without them. But since these respondents have already purchased their intended brand, their change in attitude will not necessarily predict any future purchases: purchase has already been made. From this purchase forward, their attitudes will inevitably depend, at least until the next survey, more on their actual use of the product than on their exposure to representations of the product in advertising. Thus even as a concurrent rather than leading indicator of sales change, attitude change will be distorted by the very thing it is trying to predict.

Many Ways to Communicate

Users of communication measures of advertising have argued that sales is a misleading measure because it is influenced by such non-advertising factors as price, sales calls, experience with the product, and the like. They seem to feel that communications measures are free of this problem, that since the most obvious and immediate effect of advertising is communication, then communication changes will reflect only this effect. But as we have seen, communication can be achieved in more ways than through advertising: experience with the product and word-of-mouth are two of many such other ways. Communication no less than sales is a function of many factors, and to isolate the contribution of advertising to communication requires no less stringently the use of designed experiments which hold constant or account for other factors.

If communications measures are neither reliable indicators of sales nor uniquely determined by advertising, then there would seem to be only one practical reason left for using them as measures of advertising effectiveness. They may be more sensitive to variations in advertising copy and hence useful for diagnostic purposes provided they are taken simultaneously with sales measures. They can show where advertising was one of the paths to a sale, as well as the relative effectiveness of different kinds of advertising not in communicating, but in communicating and thereby causing sales. Few researchers would contend that communications changes by themselves are useful absolute measures: who can assess the dollar value of a shift in attitude toward a brand? But it is well to bear in mind that even as relative measures of copy or media effectiveness, communications changes by themselves may be misleading. In the previously cited Lucite case, one medium caused more attitude change while the other caused more sales.

^{5/} D. Ehrlich, et al., "Post Decision Exposure to Relevant Information," Journal of Abnormal & Social Psychology, Vol. 54, 1957.

These apparently paradoxical phenomena are understandable only when we take the trouble to operationally define communications and sales effects. Both require at least two observations. As long as the purchase can occur between these observations, we cannot expect communications changes always to precede sales changes, or even that one will concurrently reflect the other. And as long as communication, like sales, can be caused by many factors, we cannot expect it to reflect only the effectiveness of advertising--not, that is, without taking the precautions described below.

Marketing Experiments

To isolate the effects of advertising or any other marketing force on a desired outcome we must arrange to observe that outcome in a situation in which all other influences are held constant or otherwise accounted for. Such situations are known as experiments, and should not be confused with the colloquial meaning of an experiment as a hit-or-miss exploration.

True experiments that measure communication effects are just as tricky to execute as experiments that measure sales effects. But experiments that measure both effects at once are not twice as costly as either experiment alone, since many of the costly precautions needed for one can serve in the other as well. All of the precautions have the same object: to insure that the observed results have only one interpretation. In other words, the design of experiments is concerned with eliminating alternative explanations of the findings. The value of experimental design can be seen most clearly by contrasting experimental with non-experimental findings. Here are some typical non-experimental attempts to measure marketing forces:

"Certain advertising agencies and research organizations attempt to measure advertising effectiveness by asking respondents to recognize or recall the advertising and at the same time report their purchases of the brand advertised. If those persons who recall the advertising also report buying more of the brand, then advertising is given credit for these extra sales, which are then called the plus for advertising, 6/, usage pull, 7/, or net ad produced purchases 8/. Unfortunately, there are other interpretations of a relationship between reports of remembering advertising and reports of purchase. As noted above, some people may become more sensitive to or even seek out advertising for a product as a result of buying it. Other people are just naturally so agreeable that they tend to overclaim both exposure to advertising and purchases when the two are actually unrelated."

"NBC, in a series of studies done in New York, Fort Wayne, and Davenport, Iowa in 1950-55, compared the purchases of owners and non-owners of TV sets, of self-reported program viewers and nonviewers, and of self-reported radio listeners and nonlisteners. Though the owners or users were painstakingly matched with the non-owners and non-users on other variables such as location, age, income, etc., it was not possible to conclude that ownership or use of the medium caused the reported differences in product purchase or usage. One obvious class of alternative explanation is that factors other than those on which the groups were matched caused both purchase or use of the set and purchase of the product. In the first of these studies, for example, while TV owners bought more

6/ Harry D. Wolfe, "A New Way to Measure Advertising Effectiveness," Tide, Vol. 32, No. 3, February 14, 1958.

7/ Rosser Reeves, "Reality in Advertising," (New York, Alfred Knopf, 1961).

8/ Daniel Starch, "Measuring Product Sales Made by Advertising," Media/scope, Vol. 5, No. 9, September 1961.

TV-advertised brands than non-owners, they also bought more of everything else. The most recent study in this series, reported below, sought to eliminate alternative explanations by measuring simultaneous changes in exposure and purchase rather than their absolute levels." 9/

"NBC interviewed two thousand adults in a Midwestern city twice, three months apart, on brands bought and exposure to certain television programs and certain magazine issues in the past four weeks. Persons who saw a program or issue in the first period but not in the second usually bought less of the advertised items. Where the reverse was true and reported exposure increased, sales usually increased. Data were presented only for an average of 22 brands studied, not for any individual brands. The conclusion that increased exposure caused increased sales must compete for acceptance with the not-ruled-out possibility that other factors such as health or travel may have influenced both changes, and the possibility that the previously mentioned tendency of some respondents to agree with the interviewer may have increased as a result of the first interview." 10/

As demonstrations of advertising effectiveness, these studies share a common shortcoming: the respondent himself determines whether he will be exposed or available to the advertising. If any of the unique causes of this bit of the respondent's behavior are also causes of his purchase behavior, then these common causes account for all or part of the observed relationships between advertising and purchase. In practice, of course, we almost never know the complex causal chain of circumstances that leads someone to view TV or not to view, to buy the brand or not to buy the brand. All we know is that only in the unlikely event that none of these circumstances is a common cause of both viewing and buying may we conclude that only viewing causes buying--or vice versa.

So we see that if an experiment is to show anything unambiguous about a force, persons in the experiment must not be permitted to determine whether they are exposed to that force. The value of this classic precaution in experimental design has been vividly illustrated in medical research, where doctors attempted to assign a test drug and an inert placebo at random to successive patients. Despite doctors' attempts to ignore the patient's condition in deciding whether to give him the drug or the placebo, they were found to have exerted a small but significant bias by giving the test drug to a higher proportion of the obviously sicker patients. Merely by looking sicker these patients "selected themselves" for treatment. Findings like this led to the double blind method of experimentation, in which the examining physician is prevented from knowing which substance is drug and which placebo. The choice of treatment is thus made independent of the characteristics of the persons being observed.

9/ National Broadcasting Company, "The Hofstra Study: A Measure of Sales Effectiveness of TV Advertising," (New York, NBC, 1950).

National Broadcasting Company, "TV Today: Its Impact on People and Products," (New York, NBC, 1951).

National Broadcasting Company, "NBC Study of Radio's Effective Sales Power," (New York, NBC, 1952).

National Broadcasting Company, "Summer Television Advertising: An NBC Study," (New York, NBC, 1952).

National Broadcasting Company, "Why Sales Come in Curves," (New York, NBC, 1953).

National Broadcasting Company, "Strangers into Customers: The Fort Wayne Study," (New York, NBC, 1955).

10/ Thomas E. Coffin, "A Pioneering Experiment in Assessing Advertising Effectiveness," Journal of Marketing, Vol. 27, No. 3, July 1963.

Users of "test marketing" observe this precaution when they pick markets to receive varying levels of marketing treatments independently of the peculiarities of the market. Most marketing researchers realize that little can be learned about the value of additional salesmen by assigning them all to the district that needs them most (or least), or about price deals by trying them only in the best (or worst) markets.

How to Know the Odds

But choosing test markets independently of their characteristics does not in itself guarantee an unambiguous result. Seven years ago, the advertising director of a well known U.S. company said publicly that market tests were worthless because when he had picked, independently of their characteristics, one of two similar cities to receive a month of increased advertising, the other city's sales turned out to be considerably higher. Upon investigation he learned that the entire month's distribution of his product to the test city had been lost in a train wreck. This, he complained, was what was wrong with test marketing: you couldn't be certain that your results were not caused by something as accidental as a train wreck.

He was right. There is no way to be certain that the results of an experiment are not purely accidental. There are two procedures, however, that permit us to estimate the odds: randomization and random sampling. Randomization means assigning treatments to groups according to some random routine. The medical researchers, for example, might flip a coin to decide whether to give the next subject the drug or the placebo. Even so, there is no guarantee whatsoever that one group is not, say, stronger, younger or brighter than the other. But having been assigned at random to those groups, we know that only by an experimental error or by chance can one group exceed the other in some way that affects the final results. We can estimate what those chances are. When they are very small and if no experimental errors have crept in, we can scarcely doubt that the observed difference between the groups is the result of the treatment. One way to insure that these chances can be small is to use many experimental units (persons, households, markets, etc.) in each treatment group. If the aforementioned advertising director had done so, the train wreck in one market would hardly have been noticed.

If we wish to generalize, as we usually do, beyond the sample from which they were obtained, then we must insure that the experimental units represent a definable larger population. This is the purpose of random or probability sampling, and the reason for selecting as many experimental units as the budget will bear. When the experimental units are cities, the budget may not bear many units. Du Pont's advertising research section, one of the most experienced users of marketing experiments, recommends at least three markets per treatment. As the following cases show, it may be possible to obtain conclusive results with less, but not often:

"In 1940 Frank Stanton, then a researcher at CBS, matched two markets for population, number of retail outlets, product distribution and sales of the product, an unnamed staple item. After it was advertised on a single radio program in one market and not in the other, store audits found retail sales 88 per cent higher in the test than in the control market, but audit figures are not reported for the two markets before the advertising was broadcast. Among listeners sales were 81 percent higher than sales of the next brand, versus seven per cent higher among non-listeners, but comparable figures are not provided for the control city." 11/

11/ Frank Stanton, "A Two-Way Check on the Sales Influence of a Specific Radio Program," Journal of Applied Psychology, Vol. 24, No. 6, December 1940.

"In 1955, after a month-long better breakfast campaign in a town of about 10,000, family egg consumption increased from 2.1 per day to 3.2. In a control city egg consumption remained fairly steady, shifting from 2.2 to 2.5. After 15 months, the test city still had greater consumption, leading the control city by 2.5 to 2.1. The study relied only on respondents' reports, so it is not clear whether the campaign made more people use eggs or merely made more people say they did." 12/

"In 1956 Playtex bought four weeks of TV commercials in New York City but not in Philadelphia, Hartford, and Rochester. Regular Playtex salesmen audited sales in certain stores two weeks after the campaign. Sales of brassieres were 205 per cent better in the TV market than in the control cities. Sales of girdles were only 151 per cent better, partly because a new Playtex girdle was introduced in Philadelphia by mistake causing a flurry of promotional activity in that control city. The new girdle also was introduced in New York. Besides the store audits, a thousand people in New York were asked about their purchases before the campaign, and another thousand after the campaign. Reported brassiere purchases stayed the same but reported girdle purchases almost tripled due in part to the new model." 13/

"In 1964 the market research director of the Mennen Company attempted to see how the known national sales of an established product would have been predicted by six "test market" areas, each as big or bigger than New York State. When he used a single test area, the projection error in national sales exceeded plus 48 per cent or minus 36 per cent in one-fifth of the cases. When he used three areas, the corresponding error was plus 26 and minus 20 per cent." 14/

"In the peak Lenten season of 1958, a special six-week promotional campaign for cottage cheese was run in five test cities (three Southern, two North Central). Two control cities (one Southern, one North Central) received no promotion. Test markets showed greater gains during promotion and slowest dropoff in sales afterwards. Eight weeks after the campaign ended, the Southern test cities had maintained higher sales than in 1957. This did not happen in the Northern test cities, perhaps because per capita consumption there was already about four to five times that in the South." 15/

"In 1958 Campbell Soup used each of five advertising appeals in a different pair of test cities. Small 200-line reminder-type newspaper ads were run five days per week for 22 weeks. Two control cities received no advertising. Sales in all test cities equalled or exceeded those of the control cities, and one campaign was rated the best of the five. A concurrent survey indicated that increased usage of soup occurred for the types of use mentioned in the ads." 16/

Observe More Markets

As long as marketing research costs money, there will be studies in which only one or two cities will receive each treatment while the experimenter crosses his fingers and hopes nothing goes wrong. It is not possible at this stage to state

12/ The Pennsylvania State University, "A Better Breakfast Program," (University Park, Pennsylvania, The Pennsylvania State University).

13/ Harvard Business School, "International Latex Corporation," (Boston, Harvard Business School, 1958).

14/ Jack A. Gold, "Testing Test Market Predictions," Journal of Marketing Research, Vol. 1, No. 3, August 1964.

15/ James F. Hind and Mardy Myers, "Evaluation of Promotional Materials on Home Delivery Milk Routes, Cumberland, Md." (Washington, D.C., U.S. Department of Agriculture, January 1962.)

16/ James F. Merriman, "Evaluating Advertising Appeals through Sales Results," Journal of Marketing, Vol. 23, No. 2, October 1958.

unequivocally that more markets will provide more conclusive results; each study has its own unique constellation of specific problems to overcome. In the cases below, however, which used rather more cities per treatment than the studies in the previous group, the results were clear cut and capable of being implemented with confidence.

"In 1960 the Florists' Telegraph Delivery Association compared radio, newspapers, TV and outdoor with their regular media mix by using each medium exclusively in a group of three markets. Sales could be measured accurately since all F.T.D.A. orders must clear through a central clearinghouse. Markets were matched for population, income, amount of F.T.D.A. activity and business, and geographic region. The test ran for six months with virtually identical advertising budgets of about \$5,000 for each medium tested. Setting the U.S. rate of annual increase in sales at 100, the increases were: outdoor, 131; radio, 101; regular media mix, 95; newspapers, 63; and TV, 46. No information was provided on the consistency of change within each group of three markets. Outdoor may have done best because it alone was in color and left "most to the interpretation and imaginative involvement of the reader." 17/

"In Fall 1962 Du Pont broadcast ten, five or no minutes of TV commercials for "Teflon" nonstick cookware in four, five and four markets, respectively. Then in Winter 1963 the same 13 cities were redivided into groups receiving seven, three or no minutes in order to observe the effect not just of advertising level but of sequence of levels. One thousand women were interviewed by telephone at the end of each period. Du Pont concluded that the "Teflon" advertising expanded the total cookware market by about 21 per cent, and doubled purchases of the type advertised. Analysis of the data suggested that part of the market expansion may have come through a borrowing of future sales: for example, when advertising was high in the first period and low in the second, the total market size for the second period actually fell below that in cities where advertising was low or non-existent in both periods." 18/

"In 1963 Benton and Bowles advertising agency matched eight pairs of cities for demographic and media characteristics, and randomly assigned one of each to one of two media plans. In each city 230 users of the product category were questioned by telephone about brand usage in June and September, before and after the campaigns had been running three months. The use of 16 test cities proved to be critical. If only two cities had been used, either media plan could have won, depending on the pair of cities. More importantly, the data from the 16 cities could be reworked by regression analysis to partial out the important extraneous factor of initial market share. The regression analysis showed strikingly that the campaigns converted fewer people in cities where the brand started off with a lower market share. Matching of cities had not removed this factor, and one media plan was at a disadvantage since it ran in cities with generally lower brand franchises. When market share was held constant, this media plan proved significantly more effective in drawing away customers from other brands. The two plans did not differ in their ability to hold those already buying the brand." 19/

Note that two of these cases provided structural insights--for Du Pont, about the possibly borrowed nature of sales generated by advertising, and for Benton and Bowles,

17/ Jaye S. Niefeld, "Which Medium Sold More Flowers?" Media/scope, Vol. 4, No. 11, November 1960.

18/ James C. Becknell, Jr. and Robert W. McIsaac, "Test Marketing Cookware Coated with 'Teflon,'" Journal of Advertising Research, Vol. 3, No. 3, September 1963.

19/ Frank X. Stanton and Valentine Appel, "Multi-Market Testing--A Practical Method for Choosing between Media Alternatives," in "Proceedings: Tenth Annual Conference," (New York, Advertising Research Foundation, 1964).

about the importance of initial market share in determining how advertising will work. But if the researchers had not been alert to these factors in the first place, the results would probably have been misinterpreted no matter how many experimental units had been assigned to each treatment. Sheer numbers of cases can never supplant ingenuity in experimental design or the ability to foresee possible influential forces.

The Latin Square

One ingenious experimental design that has demonstrated its value in marketing is the Latin Square. In simpler designs, where different treatments are given to different groups, the effect of the treatment must be estimated by comparing the average difference between groups with the differences between persons within groups. Large individual differences make it difficult to detect small treatment effects. This problem is avoided in the Latin Square design where each treatment is administered to every group: each person gets all treatments, so serves as his own control. Moreover, to guard against the possibility that the effect of a treatment might depend on when it was given, each group is given the treatments in a different sequence, and each treatment occupies each position in the sequence an equal number of times. For example, when there are only two treatments, say A and B, the Latin Square is simply two groups each of which receives a different treatment first: Group A-B and Group B-A.

The United States Department of Agriculture has made frequent use of the Latin Square design in marketing. Three of their experiments are briefly summarized below:

"In 1962 two types of promotion for lamb were used at different times in six cities. Each city received (in different sequences, according to the Latin Square design) a "national" campaign consisting of a consumer advertising and education program, a cooperative advertising arrangement with food retailers, which cost less than half as much as the national program, and a period of no advertising at all. Compared with the no-advertising period, lamb sales were 26 per cent higher with cooperative advertising and only 10 per cent higher with the most costly national promotion." 20/

"In a 1963 study of Winter pears, four promotional techniques (store demonstrations, dealer contests, point-of-purchase displays, and a newspaper-radio campaign) were employed at different times in five large cities. The 20-week study was divided into five four-week periods during each of which one of the four techniques or no promotion at all was employed. The sequence of treatments was varied among cities according to the Latin Square design. Retailer cooperation was sought for each type of promotion. Dealer contests worked best, followed by store demonstrations. The point-of-purchase displays and newspaper-radio campaigns did not increase sales of winter pears, possibly due to lack of dealer support. "Retailers actually devoted less display space and newspaper advertisement space to pears during the media advertising program and special point-of-purchase displays than during no promotion, and did not reduce the price." Another surprise: reduced retail price, increased display space, and increased newspaper advertising each had a negligible individual effect, but when used together, significantly increased sales." 21/

20/ Peter L. Henderson, James F. Hind and Sidney E. Brown, "Promotional Programs for Lamb and Their Effects on Sales," (Washington, D.C., U.S. Department of Agriculture, January 1962).

21/ James F. Hind, Cleveland P. Eley, and Carl R. Twining, "Special Promotional Programs for Winter Pears: Their Effects on Sales of Winter Pears and Other Fruits," (Washington, D.C., U.S. Department of Agriculture, 1963).

"In 1959, what may have been the first experimental sales test of copy themes was conducted by the U.S.D.A. in 72 supermarkets, 12 in each of six Midwestern cities. The stores in each city received (in different sequences, according to the Latin Square design) three four-week treatments: in-store promotion of apples using Theme A, similar promotion using Theme B, and no advertising. Observers recorded local and store conditions throughout the study and attempted to partial out statistically the possible effects of concurrent newspaper advertising and display space for apples and other fruit. "Apples can be used in many dishes" sold more apples than "apples are good for you." 22/

Lest it appear that marketing experiments can be usefully employed only by large organizations like Du Pont or the U.S. Department of Agriculture, note should be taken of the following experiment designed and conducted by a Long Beach, California newspaper, at virtually no extra cost to itself or its advertisers:

"In 1959 two jewelers, two furniture stores, and two variety stores tested the effect of color in local newspaper advertisements by alternating in its use. The first week one retailer of each pair ran a two-color ad while the other ran a black-and-white ad. The next week the other ran the two-color ad and the first a black-and-white ad. Color and black-and-white ads were kept as similar as possible. Black-and-white outsold color by seven per cent at one store, but at the other five stores color ads were ahead by 45 to 83 per cent." 23/

The State of the Art

"The truth," Oscar Wilde once observed, "is rarely pure and never simple." Methods for getting at the truth, unfortunately, must be correspondingly complex. This is especially true in marketing, where easily interpreted situations are rare. Unlike simple physical systems, whose regularities can be safely observed by many methods, marketing systems reveal their underlying cause-and-effect relationships only to certain approaches, and then only under certain conditions.

The studies cited above illustrate some of these approaches and conditions. From them we may draw three tentative conclusions:

1. As measures of marketing effectiveness, sales and communication together are preferable to either separately, because one does not always reflect the other. If only one measure is possible, sales is preferable to communication because neither is uniquely determined by a single marketing force and sales is easier to translate into earnings or other dollar goal of the firm.
2. To determine the contribution of any marketing force to either sales or communication, the experimental method is most likely to provide an unambiguous result because it eliminates most of the inevitable alternative explanations of naturally observed relationships.
3. To design a conclusive marketing experiment requires a thorough knowledge of the specific situation, including the ability to control, observe, or even

22/ Peter L. Henderson, James F. Hind and Sidney E. Brown, "Sales Effects of Two Campaign Themes," Journal of Advertising Research, Vol. 1, No. 6, December 1961.

23/ Editor and Publisher, "Color Study Checks Sales in Stores," Editor and Publisher, June 13, 1959.

foresee enough of the possible causes of the effect under study to permit observation of the undiluted influence of some of them. Whether one has this ability can sometimes be learned from a thorough analysis of the sales and marketing history of the product involved. In other cases there may be no way of knowing until some experiments have been done.

By now it should be clear that there are no easy ways to evaluate the profitability of advertising and marketing expenditures. The state of the art is sound, but the art itself is costly and complex.

Experimentation is recommended not because it is a panacea but because in many cases it is the only way to get unambiguous measures. This unique capability does not guarantee unambiguous results in those cases, but merely makes them possible. In marketing experiments as in most business endeavors, chance plays its inevitable role. As in few business endeavors, however, part of this role is made manifest by the experiment itself.

For many firms, particularly those with large advertising budgets, the promise of marketing experimentation has outweighed its risks and cost. The ideological question of whether profit yardsticks for marketing are possible has given way to the practical question of the conditions under which such yardsticks can be obtained and acted on to advantage. As published cases accumulate, some of these conditions may emerge as common to a variety of products and circumstances. Until then each management must determine for itself whether its own particular conditions argue for or against marketing experiments. To all businesses with rising marketing costs, such a determination can be recommended as nothing but the path of prudence.

Discussion: Evaluating Response to Market Development
and Promotion Programs for Agricultural Products

by

Peter McDonald, Senior Account Executive
Guild, Bascom & Bonfigli, Inc.

If possible, I have been more absorbed in Dr. Ramond's paper than many of you, since he was talking about my bread and butter. As an account executive in an advertising agency, I am very much concerned with measurable response to advertising and promotion efforts--and, above all, in effective communication.

And I was happy to note that Dr. Ramond referred to the use of the evaluative techniques he described, as being an "art," rather than a science. And certainly, communication itself is an art, too.

For a few moments, I would like to expand on what Dr. Ramond has said in terms of what might be called the premeasurement stages: to look at those creative steps which, hopefully, will lead to something worth measuring.

Those wise to the ways of computers will know the phrase "Garbage in--garbage out." If those of us at the creative input end of advertising work can only work more precisely, then people like Dr. Ramond wouldn't have quite such a time of it at the output end.

We all know of the great drive in American business to diversify--to introduce a host of new products every year. For some time now, I have been almost wholly concerned with the development of marketing plans for such new product introductions. At Guild, Bascom & Bonfigli, we regard the use of creative marketing expertise to be an essential part of client service--as a vital part of helping a client to reduce the tremendous hazards of introducing anything new to the public these days.

The problems of new products may perhaps shed light on those of old products . . . and after all, what has been around the market place longer than the egg (unless it's the chicken): these are just two agricultural products which seem to have problems of major proportions today.

With the costs of doing business rising almost by the hour . . . and the odds of any new product succeeding being about ten to one against . . . there is less and less interest among major manufacturers in what may be called "me too" products (who wants another Kleenex, another ball-point pen? . . . unless they promise benefits far beyond present brands).

Rewards can often be greater through the development of products which are really new, truly unique . . . needed or likely to be desired. In working with this kind of proposition, there is a good chance of getting into uncharted waters, with no information to work from at all.

It is then that the chances of feeding garbage into the system become greatest. It is at this point that the question becomes . . . not "what was the response to so-and-so," . . . but rather "what will it be?", and usually this question is tagged with a list of alternative "if's."

Before these questions can be answered, some pretty careful evaluation of the product's characteristics must be made, a great deal of thought (and research) must be given to the communication of these characteristics--in terms of the consumers' needs or desires. And eventually . . . these characteristics, and the communication of them, must emerge as what at GB&B we call a "Product/Concept" . . . which is a new, indivisible entity.

For the point is, there are many qualitative and quantitative measuring techniques for establishing attitudes of consumers, product acceptance, product image, and so on. But these attitudes and images constantly shift and are often deceptive. The alert manufacturer or producer gages these as accurately as he can before plunging into what is, at best, a hazardous new venture.

But . . . assuming efforts are now being made to make sure of success which are somewhat more refined than those of earlier years . . . there can still ensue what Theodore Levitt has well described as "the self-deceiving cycle of bountiful expansion and undetected decay." The threat of obsolescence is in no way diminished: it is, in fact, accelerated as the techniques of new product development improve. For if an industry's own research does not make its products obsolete, another industry's will.

It was Levitt, in his famous article, "Marketing Myopia," some 5 years ago, who did so much to impress business men with the difference between selling and marketing a product. Today it would seem that no one disputes the principle of marketing--with the idea of satisfying the needs of the consumer by means of the product and that whole cluster of things associated with creating, delivering, and finally consuming it. But despite the fact the measurements and evaluations being discussed today are somewhat more sophisticated than they once may have been, they are still relatively crude--but the attitudes of those who could put these techniques to use are even cruder. And if, in the case of agricultural products, the cap fits, then wear it. For the sad truth is that both within and beyond the agricultural field, far too many industries hew to the narrow line of selling, not marketing, keep to the limited view of their own category of product and their vested interests in them--and blindly, mulishly, refuse to learn from their own past experiences.

A random case or two in point: you all know how violently the movie business resisted television a few years ago. After millions were lost and studios went out of business--because they insisted they were in the "movie business" rather than the entertainment industry--Hollywood had to capitulate. Now, ironically, the big attractions in the theatres are often the stars which TV has made famous and who have expanded into making movies. But have the movie people learned their lesson? Apparently not: in this State, the theatre owners were the prime force behind legislation to ban pay-TV, as a threat to "free" TV--and in the last election, they bulled it through. A few weeks ago, this legislation was declared unconstitutional and the battle continues.

And what about the dairy industry? You all must know better than I the details of the bitter fight against margarine--which the dairy industry lost just as surely as movies lost to television. Today, there is more margarine sold in supermarkets than butter. But has this lost battle caused a major shift in attitude by the dairy people? I must leave you to answer from your own specialized knowledge the extent to which there is resistance--and a repetition of the margarine error--toward the non-dairy products which are finding consumer acceptance today--products which, such as cream substitutes, are awakening a response in consumers either because of price, taste, convenience, health, or some other need or desire which they are fulfilling successfully through creative marketing.

I lay claim to little more than a layman's knowledge of agricultural economics--but what little digging I have been able to do in recent weeks suggests that more and more product/concept evaluation is needed for the ills I have discovered. The revamping of existing products. . .I mentioned the egg and the chicken a moment ago. . .calls for all the skills which creative marketing can bring to bear.

I have consulted a short report called "Barriers to Egg Consumption," which, says the Department of Agriculture, shows a drop of 18 percent in the consumption of eggs in the decade 1952 to 1962. This has come about at a time when production has become higher and more efficient than ever before. Consumer habits have been changing--breakfast has become a "grab" meal, far more permissive than before, with no time for egg preparation, accompanied by a decline in actually liking eggs by younger people.

Wondering about this whole situation, I phoned a local egg association--here in the Bay Area--and asked what must have been the silliest question of the year: I asked "what is the price of eggs?" Perhaps the most concrete reply I finally got was "too low." And certainly eggs have become a football--a loss leader--in many or most supermarkets. The Government lists six grades of eggs--without counting variations from State to State--all the way from AA to "U.S. Light Dirty" and "U.S. Dirty."

Isn't it time for some product/concept evaluation? Isn't it time--not for the measurement of promotions for selling eggs--but for the creative marketing of eggs? I fully admit my naivete in the egg business. But I do know that the one word commonly linked with "eggs" by consumers is the word "fresh". . .it's always "have you any FRESH eggs?". . .I am not aware, though, of ever having seen a dated egg--stamped right on the shell along with the brand name. I see some smiles: perhaps this is proof positive of how naive I am. But if--in this random example--consumers really want proof of freshness and are willing to pay a premium price for it, then smiles and head-shaking and the "It's been tried before" kind of attitude can, and should, be overcome. And please note that I have said nothing at all about revamping the product itself--creating new forms of eggs in compliance with current consumer needs or desires, or designed to overcome present prejudices against shell eggs.

From the egg to the chicken--for one last example. Chicken is just about the cheapest meat on the menu today. It is also just about the most insipid and tasteless meat too . . . I'm talking about the meat itself, not what you gussy it up with. The reason for this--so I'm told--is that women insist upon buying fresh chicken. The land round big cities is too expensive for chicken raising, which forces growers to ship long distances their so-called fresh chicken, packed in ice. Just a mile from the Berkeley campus I have seen huge trailer rigs unload these chickens at an ice-house, coming all the way from Dallas--1,800 miles away. The ice is melting, and the juices can be seen draining out of the chickens into the water--and the flavour going with it. Then the housewife triumphantly bears this pallid remnant home and promptly puts it in the freezer--but she won't buy a frozen chicken. So here is an industry with enormous production potential, enormous turnover and hardly any profit. With this "from-Dallas-on-ice" bit, is it any wonder?

Yet the poultry industry can provide a better chicken--better frozen, better tasting, and at a better profit--and I believe it could be done with imaginative, creative marketing. For attitudes do not always reflect behaviour--and even when the measurement of them is in fact accurate--this behaviour can be changed through the development of effective product/concepts.

For this is just what is emerging with turkeys. Surveys have shown that 50 percent of women insist that they want a fresh turkey--yet 95 percent of all those sold are frozen. Not all of them necessarily good turkeys, it must be admitted, and growers still face difficulties. Now the next step is becoming reality: Ralston Purina Company--a client of Guild, Bascom & Bonfigli, incidentally, so I do have some data to work on in

this instance--has developed the Honeysuckle brand of turkeys, specially bred for prime weight and quality at an early age, selling for a premium price over that of ordinary turkeys. Despite attitude studies and other measurements of consumer behavior which were somewhat discouraging, creative marketing of a sound product/concept makes the Honeysuckle turkey a success--consumers willingly pay several cents a pound more and the producers make a fair profit--so everybody's happy.

And that's what it's all about. When will we ever learn the two-way nature of communication--that the art of evaluation of response is, in essence, the art of listening?

Discussion: Evaluating Response to Market Development
and Promotion Programs for Agricultural Products

by

Cecil N. Smith
University of Florida

Dr. Ramond has done a very outstanding job in calling attention to the multitudinous problems which are involved in evaluating the effectiveness of advertising. He has cited a series of examples and statistical analyses which bring out very effectively the main theme he has chosen for his paper. He makes an excellent case for having controls when marketing research is done. Without such controls, it is obvious that much of what has been, is being, and will be done in attempts to evaluate advertising will have little if any meaning.

Those of us who have had the experience of conducting merchandising and promotion projects know the tremendous amount of meticulous detail which is essential if one is to do any effective evaluation of an advertising experiment. In the last 15 years, interest in measuring the effectiveness of advertising has resulted in a tremendous number of studies to determine whether advertising programs have been effective.

Dr. Ramond cites an example of a study done by a firm concerned with the marketing of a commodity--flowers--to which a portion of my time during the past 10 years has been devoted. With a compliment to Dr. Ramond for the very excellent presentation which he has made, I would like to spend the rest of the time allotted to me in discussing some of the ramifications of advertising on the marketing of flowers.

Flower and nursery products are important segments of agriculture, together accounting for almost 2 percent of the value of all farm products marketed in the United States. California and Florida are the number 1 and number 2 States in the sale of these products. (I would like to limit the remainder of my remarks to flowers.) Most floral products are purchased by final consumers to express the human emotions--showing sympathy, increasing joy, and perpetuating good will. It has been estimated that some 85 to 90 percent of all flowers sales are "necessary." Such sales are for use at funerals, illnesses, births, anniversaries, and weddings. Half of all sales are for funerals. Flowers are used more extensively at holidays such as Easter, Christmas, Mother's Day, and Valentine's Day than at other periods of the year.

Available evidence, more intuitive than empirical in nature, indicates that the demand for flowers for "necessary" purposes tends to be inelastic. Yet there is apparently an elastic demand for flowers purchased on impulse for home decorations and other uses.

The marketing of flowers in Europe as compared with that in the United States has been a subject of keen interest to the flower trade. In the United States a low premium is placed on the use of flowers in the home while everyday use of flowers is a common practice in most European countries. Although flower vendors are common on the streets of most European cities, a sophisticated marketing system through retail florists' shops also exist. Nevertheless, these flower shops cater to the elastic as well as the inelastic market for flowers. A shift in consumer habits in the United States toward the purchase of flowers for the home regularly--even if in small amounts--would result in a major increase in the sales of flowers.

The report on the Florists' Telegraph Delivery Association to which Dr. Ramond referred is an instance in which both types of demand functions for flowers probably exists. I would venture the comment, nevertheless, that the expansion of F.T.D. sales was due to a shift to the right of an inelastic demand curve rather than a movement on an elastic demand curve.

In the United States, flower shops traditionally have not catered to flowers for home use, except during holiday periods. Research conducted at various universities indicates that sales of flowers by outlets other than florists are generally not competitive with those sold by retail florists.

An increasing number of grocery supermarkets in the United States have offered cut flowers and foliage plants for sale, especially in the years since the end of the second World War. A study done by the writer in a group of supermarkets in Nashville, Tenn., utilized a Latin Square design in which prices for cut pompom chrysanthemums were varied from 59¢ to 99¢ a bunch. Total revenue from sales increased as prices were lowered. The coefficient of elasticity was estimated to be -2.5. Observations made during the experiment indicated that many factors other than price were involved in the successful introduction and merchandising of floricultural commodities. One of these was making the consumer aware that flowers were being offered for sale.

Another Florida project consisted of an attempt to evaluate the effects of advertising and promotion on the sale of gladiolus and chrysanthemums. A program of advertising, in cooperation with the Florida Flower Association, was carried out in Albany, Ga., in the spring of 1958. In the initial 3 weeks there was no promotion. This was followed by a 4-week period with a television and radio advertising campaign. During Easter Week, and the week preceding and following it, no advertising campaign was conducted. The following 3 weeks the advertising campaign was again initiated. During the final 4 weeks (which included Mother's Day) no advertising program was conducted.

Macon, Ga., was selected as the check market. No advertising was done there. Seven grocery supermarkets in Albany and five in Macon cooperated by offering pompom chrysanthemums and gladiolus flowers for sale. Each cooperating grocery store set its own selling price for flowers. However, nearly all followed the suggested price of 69¢ a dozen for gladiolus and 59¢ a bunch for chrysanthemums. Posters featuring the use of flowers and leaflets on flower arranging were placed with flower displays in cooperating stores in both cities. Stores were supplied with flowers on a consignment basis in order to maintain quality and to assure sufficient supplies to meet possible consumer demands. Regular checks on supplies and quality of displays were made.

A radio and television promotion campaign was conducted in Albany during two separate periods. The first period consisted of participation on Wednesdays, Thursdays, and Fridays on an afternoon TV woman's program. The format was changed in the second period to one weekly appearance on the woman's program and to spot announcements on the other 2 days of the week. Information concerning the use of flowers in the home, followed by an appeal to buy them, was featured on the program.

Radio advertisements, designed to attract morning music listeners and people driving to and from work, urged the use of flowers in the home. They suggested that purchases be made either at florists' shops or supermarkets.

The level of average weekly sales of pompom chrysanthemums for customer checking-out of supermarkets was numerically higher for Albany than Macon. However, a statistical analysis showed that the differences in sales levels during the initial 3-week period could have been due to chance. The average weekly level of sales for the remaining four periods--as well as for the entire 17 weeks--was significantly higher in Albany than in Macon.

Except during the second promotion period in Albany, any difference in the comparative average level of gladiolus sales per customer in cooperating supermarkets could have been due to chance factors. For every 10 dozen gladiolus sold in Albany, 7.7 bunches of chrysanthemums were purchased. The equivalent ratio in Macon was 10 to 4.7. Since neither flower was emphasized over the other, the results suggest that the advertising program in Albany was effective in raising the level of purchases of chrysanthemums--a flower hitherto not generally marketed there. Although the ratio dropped in both markets during the course of the experiment, it stayed on a higher level in Albany than in Macon.

Retail florists in Albany were invited to participate in the project by offering special cash-and-carry sales during the promotional campaign. None cooperated in doing so, nor were any florists willing to supply actual comparative sales data for the period of the study and for preceding periods. All florists except one reported their sales during the course of the project had shown increases over the same period in the preceding year; few deaths of prominent persons during the period of the experiment was the reason cited by the florists whose sales did not rise.

It was apparent from this study, as from other evidence, that the sale of cut flowers in supermarkets does not hinder their sales in regularly established retail flower shops. Furthermore, it indicated that the advertising done in Albany was effective in bringing attention to prospective customers about a new product which had not previously been offered for sale in the area. Although the study left more questions unanswered than it pointed up solutions to, it bolstered the conclusions of prior research done by the writer that it will take various types of promotion and market development techniques to sell cut flowers for use in the home to the American consumer. Much more remains to be done if a cultural pattern for using flowers in the home is to be achieved.

Export Market Development for U.S. Agricultural Products

by

Kenneth K. Krogh

Deputy Assistant Administrator for Market Development
Foreign Agricultural Service, U.S. Department of Agriculture

The Agricultural Trade Development and Assistance Act--widely known as Public Law 480--was enacted July 10, 1954. Among the chief purposes of this Act, in the words of Congress, are "to expand international trade among the United States and friendly nations" and "to help develop new markets for United States agricultural commodities on a mutually benefiting basis."

Under the various authorities contained in Public Law 480--sales for local currencies, donations, barter, long-term dollar credit--vast quantities of U.S. agricultural products have moved to all parts of the world. What is sometimes overlooked is the fact that during the period when P.L. 480 has been responsible for a large volume of exports, there has been a spectacular increase in the country's private commercial exports of agricultural products. And one of the important factors in this situation has been the agricultural market development program directed by the Department of Agriculture and financed largely with foreign currencies obtained through the operation of P.L. 480.

From fiscal 1956, when this market development program first began to have major impact, to fiscal 1964, sales of agricultural products under the special P.L. 480 programs increased by about \$195 million (fig. 1). During the same period, private commercial sales increased by more than \$2.3 billion.

The market development program, of course, is only one of several factors in this picture. The economic growth of Western Europe and Japan, expanded population, increased demand for better diets, competitive pricing and improved quality of U.S. exports, and better service to importers--all are playing important roles, as well.

Today, agricultural products account for approximately 25 percent of the nation's total exports. Of our record \$6.1 billion in agricultural exports in fiscal 1964, around \$4.6 billion were commercial sales for dollars, while \$1.5 billion moved under the Government programs.

Agricultural Market Development Through Industry-Government Cooperation

The market development program that has played an important role in this dollar export expansion came into existence because Congress, in Section 104(a) of P.L. 480, authorized the use of some of the foreign currencies received "to develop new markets for U.S. agricultural commodities." Congress has since specified that not less than 5 percent of these currencies shall be made available for market development, and that not less than 2 percent of them shall be convertible into hard currencies needed for effective market development work.

The program that has been developed pursuant to this Congressional authorization is a unique example of Government-industry cooperation.

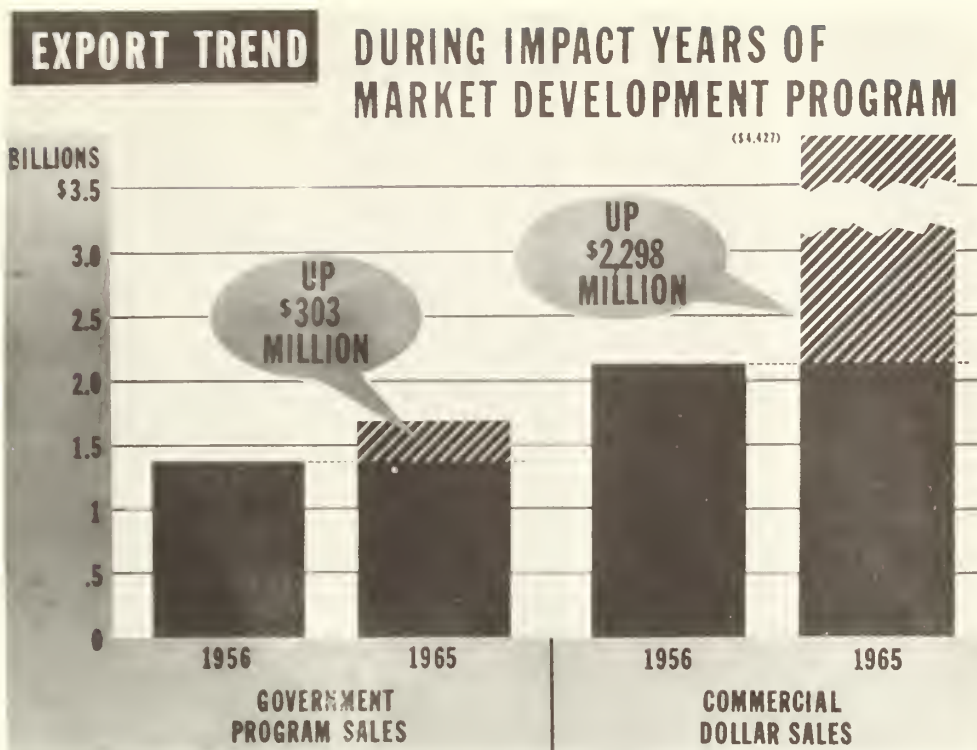


Figure 1

This program, as shown in figure 2, now involves:

- ...47 U.S. trade associations working actively in the program in 67 countries, operating 61 foreign offices, and paying a portion of the costs.
- ...206 foreign trade associations, cooperating with the U.S. associations under formal agreements and also paying part of the cost of the program.
- ...725 non-Government employees spending from half to all of their time on overseas market development work for these U.S. and foreign trade groups.
- ...Exhibits every year at leading international trade and food fairs and year-round promotion at three overseas U.S. Trade Centers.
- ...An estimated \$18.3 million expended in fiscal year 1964 of which the Government's share is approximated at \$11.2 million paid in funds derived from P.L. 480 and private industry's share is estimated at over \$7.1 million.

Public Law 480 as enacted by Congress authorized the use of foreign currencies "to develop new markets for U.S. agricultural commodities." But it did not indicate how these markets were to be developed nor did it indicate who was to do the developing. These plans were worked out administratively in the Foreign Agricultural Service.

FAS determined that major responsibility for foreign agricultural market development should rest with private associations of producers, processors, and traders on a commodity-by-commodity basis. And it further determined that the participation of such associations should depend upon their providing private funds, goods, and services sufficient at least to supervise and backstop the program. Thus the program has developed as one which is sponsored, guided, and funded by the Government, but which operates

AGRICULTURAL MARKET DEVELOPMENT ABROAD

A WORLD - WIDE PROGRAM INVOLVING :



Figure 2

directly on the basis of private initiative and direction with private contributions of funds, goods, and services now amounting to more than half those of the Government.

Typical Market Development Activities

The market development activities of these cooperating associations are many and varied (fig. 3), but most of them may be grouped under the following headings:

Market Analysis: This is a professional study of a country or area to determine its potential as a market, the trade barriers that exist, the competition, the best sales techniques to use, the budget required, and other factors necessary for planning a successful marketing campaign. No market development cooperator begins substantial work in a country until such a study has been made.

Influencing the decision makers: Depending on the situation, the key man to foreign sales may be the importer, wholesaler, retailer, government official or someone else involved in the process. The FAS cooperators have found various ways of reaching these key people. One of the most successful and least costly has been to bring teams of industry leaders from importing nations to this country to inspect our facilities--a technique, for example, which has converted Italy from a nonbuyer of U.S. wheat into one of our better customers in years when it is short of wheat and must import, particularly for its hard wheat needs.

Technical information: To build markets for an unfamiliar product, it is frequently desirable to send out technicians to show the foreign trade how to use that product to advantage. The U.S. soybean oil industry has used this technique to particular advantage in showing the versatility of U.S. soybean oil for blending with other oils. Such assistance in processing and marketing has helped make Spain one of the largest U.S. customers for soybean oil, which it blends with domestic olive oil.

TYPICAL ACTIVITIES OF TRADE COOPERATORS



Figure 3

Education: This may take a number of forms. One effective project of this type has been the work done through the schools in Thailand to inform educational leaders of the nutritive value of milk. Training of European department store employees in sales points for cotton is another example of the educational approach to market development.

Making news: Food fortnights, style shows featuring the Maid of Cotton, recipe contests, cooking schools, and other special promotions make press, radio and television news in other countries, just as they do in the United States. The FAS market development cooperators, both domestic and foreign, are using all of these techniques to get publicity that sells American products.

Point of sales promotion: Counter cards, billboards, printed material, sales demonstrations, and similar techniques are familiar to American shoppers. They work overseas too.

Getting others to promote: In a program like this, promotion paid for by the government and the cooperators is only the beginning. It is multiplied many times over by the promotional work, salesmanship, and paid advertising done by an uncounted number of business firms at home and abroad on behalf of U.S. products as the market development campaign gathers steam.

How the Japanese Wheat Program was Organized

More or less typical of the activities developed under this program has been the expansion of the U.S. market for wheat in Japan. The story of how this was accomplished provides a good example in depth of how the program was started and how it operates.

With wheat, as with most other commodities, FAS soon found that no organization existed which was fully representative of the industry and had an organization and financial structure that would enable it to assume the responsibility for worldwide wheat promotion. To an even greater extent than some of the other major commodities, wheat lacked promotional precedent and experience on which to build. A few States had wheat producer associations, but only the Oregon Wheat Growers League had a strong operating organization.

Consequently, it was to officials of the Oregon Wheat Growers League that FAS turned to discuss necessary steps in launching a foreign market development program for wheat (fig. 4).

The first step agreed upon was a feasibility study of market development opportunities and obstacles in Asia. Representatives of both FAS and the League participated in the study. As a result of this study, a program agreement between FAS and the Oregon Wheat Growers League was signed in September 1955, setting forth, in general terms, the intention of the two organizations to cooperate in overseas wheat promotion. The agreement provided for carrying out further surveys and market analyses of potential market areas and for developing foreign country projects and programs to be carried out under separate project agreements.

By the spring of 1958, wheat growers in the neighboring State of Washington had organized and joined the Oregon League in cooperating with FAS for wheat promotion in Asia. In 1959, these two organizations, along with Idaho Wheat Growers, joined forces to form Western Wheat Associates. In the meantime, wheat growers in the State of Nebraska had begun to cooperate with FAS in a wheat promotion program in Europe.

In 1958, wheat growers in Kansas and Colorado joined Nebraska in forming the Great Plains Wheat Market Development Association. In 1959, Western Wheat and Great Plains joined their efforts with FAS in wheat promotion in Asia, with Western Wheat having administrative responsibility.

Western Wheat and Great Plains Wheat operate a joint office in Washington. Together they represent wheat producers of eight States--Oregon, Washington, Idaho, Kansas, Nebraska, Colorado, North Dakota, and South Dakota. They supervise the Japanese program through a field office in Tokyo (fig. 5).

Market Development Activities in the Japanese Wheat Program

Japan originally bought wheat under Title I of P.L. 480, paying in foreign currency. The market development job at that time was to show how wheat could be used by the traditionally rice-eating Japanese. Thus, the cooperator's early efforts were largely of a "soft sell" nature.

The program began with an exchange of teams between Japan and the United States and a U.S. wheat exhibit at the Japan International Trade Fair. In April 1956, an American employee of the Oregon Wheat League opened an overseas office for U.S. wheat in Tokyo. Between 1956 and 1959, projects of an institutional and educational nature were initiated with Japanese Government agencies (fig. 6). These included:

- A. A kitchen bus project, under which mobile nutrition education units toured the countryside, staffed with cooks who showed the preparation of American wheat dishes.
- B. A school lunch program, assisting in the expansion of the wheat food program.
- C. Nutrition education training for Japanese home economists.

ORGANIZATION

OF THE WHEAT PROGRAM FOR JAPAN

1954

OREGON
WHEAT LEAGUE

PL
480

Figure 4

ORGANIZATION

OF THE WHEAT PROGRAM FOR JAPAN

1965

WESTERN WHEAT
ASSOCIATES

PL
480

GPW
GREAT PLAINS
WHEAT

TOKYO OFFICE
WHEAT
ASSOCIATES
U.S.A.

Figure 5

ACTIVITIES

OF THE WHEAT PROGRAM IN JAPAN

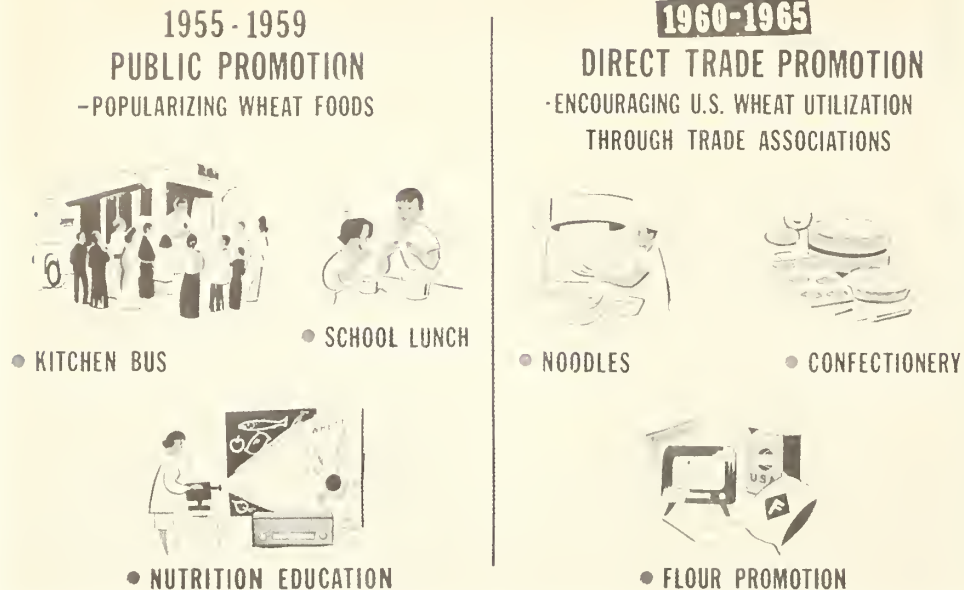


Figure 6

The Japanese wheat program in more recent years offers a good example of the fact that market development can be of maximum effect only when U.S. products have access to the market and are competitive in price.

When the local currency shipments stopped because of improvement in the Japanese economy, the Japanese shifted almost entirely to one of our competitors for bread-type wheats (fig. 7). At the same time, purchases of U.S. White Wheat, the predominant type moving to Japan, were declining. Not only was the market development program in Japan directed toward changing this situation, but both the wheat associations and Department of Agriculture officials turned their attention to obtaining reduced rail freight rates on Hard Winter Wheat moving to West Coast ports, which is where the Japanese wanted it.

Wheat Associates in Japan made a shift to a more "hard sell" approach to the Japanese trade and began to work through local wheat trade associations. None of these was in existence in 1956, but there are 12 today, each representing a different group of wheat processors. Their activities are of three types:

- A. General marketing intelligence, including maintenance of close liaison with the Japan Food Agency (the sole importer of wheat), the wheat trade, and with flour millers, bakers, and other end users.
- B. Technical and promotional assistance, including:
 1. Joint sponsorship of training seminars with wheat trade associations to upgrade the quality of wheat food products known to contain U.S. wheat.
 2. Technical assistance to Japanese industry groups on how to mill and bake flour from U.S. hard winter wheat.

RESULTS

JAPAN BUYING MORE U.S. WHEAT

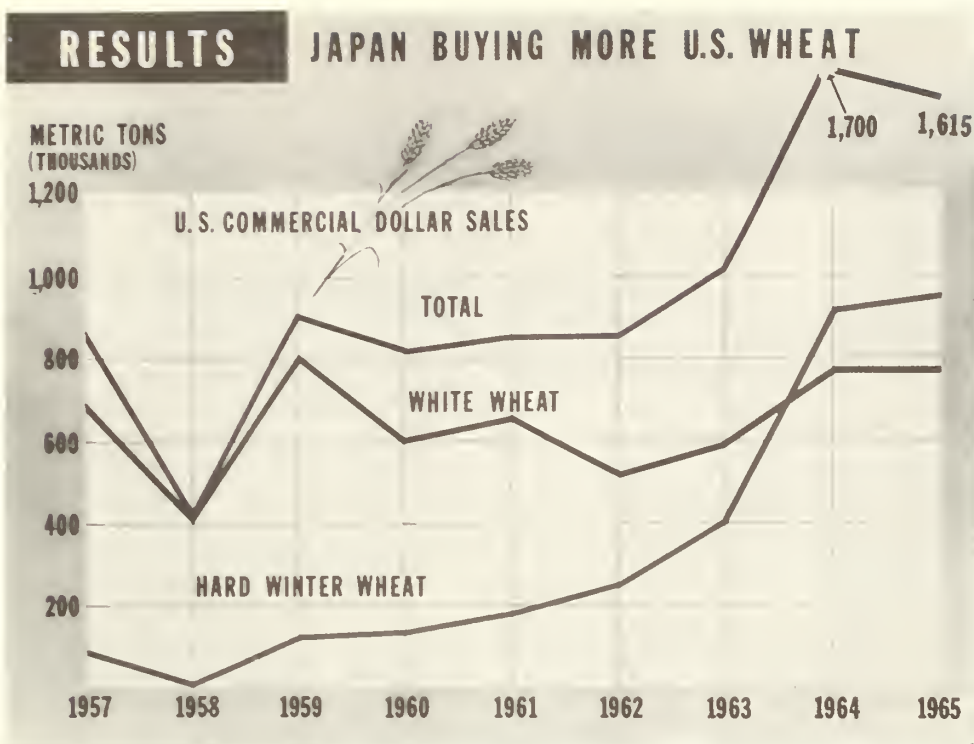


Figure 7

3. Quarterly publication of "American Wheat."
4. Assisting the school lunch program provided that 50 percent of the wheat used is from the United States.
5. Bringing Japanese trade representatives to the United States to acquaint them with methods and processes used by U.S. industry.

C. Influencing buyers, including:

1. Consumer sales promotion campaigns carried out by Japanese trade associations for products using U.S. wheat.
2. Bringing Food Agency officials to the United States for conferences with USDA and industry officials.
3. Representations with Japanese Government officials to encourage the inclusion of U.S. wheat in the Japanese "feed" wheat budget.

This combination of tactics has produced results. In 1961, U.S. railroads announced a reduced rate of 70¢ per hundredweight for wheat moving to the West Coast. As an integral part of the effort the Commodity Credit Corporation established a new export pricing policy for Hard Winter Wheat on the West Coast.

The Japanese began to increase their purchases of U.S. wheat and have continued to do so. Our combined exports of Western White and Hard Winter Wheat to Japan reached an alltime high of over 2 million tons in fiscal 1964, a 100 percent increase over the previous year.

How the Program is Supervised and Checked

The decision to operate the program cooperatively through trade organizations brought with it the need to establish administrative procedures appropriate to such an arrangement. This required the development of a system adequate to safeguard the Government's interests, yet flexible enough to permit an effective program with genuine sales impact--a system in which both the Government and the cooperators share responsibility.

Supervision and control are coordinated at four administrative levels, namely, the cooperator's home office, the cooperator's field offices, FAS headquarters in Washington, and the agricultural attache in the field.

To explain how the system works, it will be considered in two parts--program supervision and fiscal supervision.

A. Program Supervision. As shown in figure 8, this involves a number of elements:

1. Agreements. There are two key starting documents, and a third follows the second year.
 - a. First is a memorandum spelling out what is proposed, why, where work is to be performed, what it will cost, and what the division of costs will be. This memorandum is approved by the agricultural attache and by the Assistant Administrator for Export Programs of FAS.

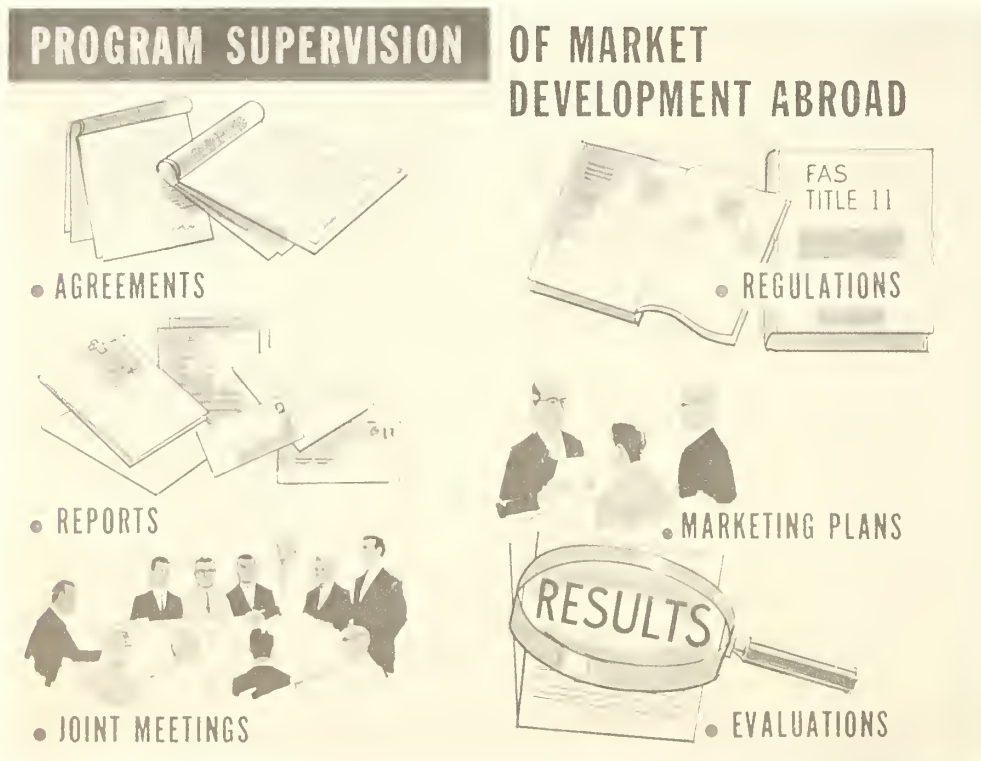


Figure 8

- b. The key features are then incorporated into a detailed project agreement, which is a formal contract that receives legal and fiscal approval before it is signed by the cooperator and by the FAS Assistant Administrator for Export Programs. The contracts extend over 1 or 2 years for beginning projects. Later they may be extended for 3, 4, or 5 years.
 - c. The third agreement is the annual marketing plan which is developed each year for ongoing projects. It sets out specific goals--for example, to obtain a change in a foreign regulation or to achieve a specified increase in sales in the country in question during the year. Specific activities, budget, and personnel requirements are outlined to attain these goals. This plan must have FAS approval.
2. Regulations. The basic rules of the program are spelled out in a 170-page book of procedure, which constitutes Title 11 of the Foreign Agricultural Service Regulations. There is a chapter in the regulations on each of the following:
- a. Authority and policies.
 - b. Developing projects.
 - c. Reports, records, and evaluations.
 - d. Field offices; employment and allowances for U.S. cooperators.
 - e. Travel of non-Government personnel.
 - f. Cooperative motion picture films.
 - g. Trade fairs.
 - h. Budget and fiscal procedures.
 - i. Trade centers.
3. Reports. FAS requires a program report on each project annually and a fiscal report every 6 months. The nature of these is outlined in the regulations. We are now adding a requirement that the cooperator supply the Government with a copy of the report submitted by each traveler making an international trip. In addition, cooperators require such reports from their field offices and supervisors as are needed for program administration.
4. Consultations. Personal contacts and consultations are frequent in the normal course of program operations. Among such contacts are: agricultural attaches with cooperator personnel, FAS commodity division representatives with cooperator representatives, cooperator headquarters staff with cooperator field personnel, and cooperator top management with FAS leaders. These consultations are an informal but important part of the supervisory process.
5. Joint Meetings. FAS and cooperator personnel meet quarterly in Washington and there are periodic meetings abroad on a country or regional basis.

6. Evaluations: Provision for the cooperator's own evaluation of its program is built into the marketing plan and reporting requirements. As to evaluation by FAS, internal evaluations of each sizable program are made annually by both agricultural attaches and the FAS commodity division concerned. External evaluations (that is, studies by persons outside of FAS or the cooperator organization) were made some years ago on a country basis in Germany, Italy, and Japan by teams from three land-grant colleges. External evaluations are now being conducted on a commodity basis by teams of outside specialists. These have been completed on cotton and wheat; one is now being planned for soybeans, and others will follow. The teams organized so far have been made up of men who are recognized leaders in the marketing and promotional fields.
- B. Fiscal Supervision. Fiscal supervision is exercised chiefly in two ways--by requiring advance approval by the Government of certain major cooperator actions and by post-approval of all transactions that involve FAS funds (fig. 9).
1. Prior Approval. This covers such actions as the following:
- a. The opening of an office.
 - b. Hiring new employees and setting salary and allowance levels.
 - c. Any expenditure for property costing more than \$500.
 - d. All major contracts for services, including third party cooperator contracts.



Figure 9

- e. Entertainment involving more than 20 persons.

(Entertainment of smaller numbers is controlled on a post-approval basis.)

- f. The making of an international trip.

2. Voucher Approval. After services are performed, the cooperator prepares a voucher in a prescribed format. This carries the cooperator's certification that the expenditure is necessary and reasonable for the carrying out of the project. It is submitted to the agricultural attache who goes over it for conformity with the agreement and the annual marketing plan, checks it as to its reasonableness, and if he finds it satisfactory, gives administrative approval. He may disallow any item which he feels is inappropriate. The voucher then goes to the embassy's fiscal office, which checks on the accuracy of the bill and the legality of the expenditures and if it is found in order, makes payment to the cooperator.

In addition to these controls, a commercial audit of the cooperator's books by an independent auditing firm is required twice each year. Finally, there are periodic checks by the USDA's Office of the Inspector General. The auditor visits the cooperator's overseas office, checks through its program (including the billings submitted to the Government), studies the independent audit, checking with the auditor as necessary, consults with the attache, and audits the books of third party cooperators as needed. This is not only a fiscal audit, but also a program audit.

3. Bonding. Some cooperators use their own funds and are later reimbursed for the Government's share of the costs. Others receive an advance of Government funds, against which vouchers are submitted. In the latter case, the cooperator must furnish a bond for the full amount of funds advanced to it under its contract with the Government. In addition, fidelity bonds must be taken out by the cooperator on all key employees.

Trade Fairs and Trade Centers

In addition to cooperator activities, there are certain promotions which are beyond the scope of a single trade association. In this category are trade fair and trade center exhibitions. These are directed by FAS itself, but always with the active participation of private trade groups (fig. 10).

From 1955 through 1964, agricultural trade fair exhibits have been presented on 153 occasions in 35 countries, before an estimated 51 million persons.

The largest was a major solo exhibit in Amsterdam in the fall of 1963 aimed at building sales throughout Western Europe. This was a 165,000-square-foot exhibit featuring all U.S. agricultural export commodities in a setting stressing advantages of trade between the United States and Western Europe. Trade representatives from more than 15 countries attended, and public attendance exceeded 125,000. In addition to immediate commercial aspects of the event, opinion leaders from many fields were brought together in a symposium on European-American trade. Discussions at these sessions helped clear the air for future trade negotiations and should have trade benefits for many years to come.

TRADE FAIRS

TRADE CENTERS



Figure 10

The Amsterdam exhibition-symposium proved to be a particularly effective news-making event. It was widely covered by press, radio, and television throughout Western Europe and served to present American trade policies in a favorable light for the first time to many Europeans.

A trade exhibit provides a fine backdrop for cooperator activity and an excellent springboard for an industry group just getting started in foreign marketing or one that is too small for an independent program of its own. Trade fair exhibits several years ago were instrumental in launching market development campaigns for rice, poultry, and dairy products. Groups representing dried beans, variety meats, and peanuts used the Amsterdam fair last fall to test consumer reaction to their products with a view to major promotional efforts.

More than 100 food processors joined with the Department in test-selling exhibits at major trade fairs during 1962 and 1963. In these exhibits, the individual firms, working through a national grocery trade association, provide foods for sale at retail prices in a supermarket setting. This has served to introduce many new U.S. products to European consumers, and results have been encouraging.

Both the public and the trade commonly attend a trade fair, but a trade center differs in that it is ordinarily open only to the trade by invitation. Agriculture is participating jointly with the Department of Commerce in the operation of U.S. trade centers at London, Tokyo, and Milan.

One of the most successful agricultural trade center events to date was an exhibit to introduce U.S. frozen poultry to the Japanese market last fall. Twenty-two

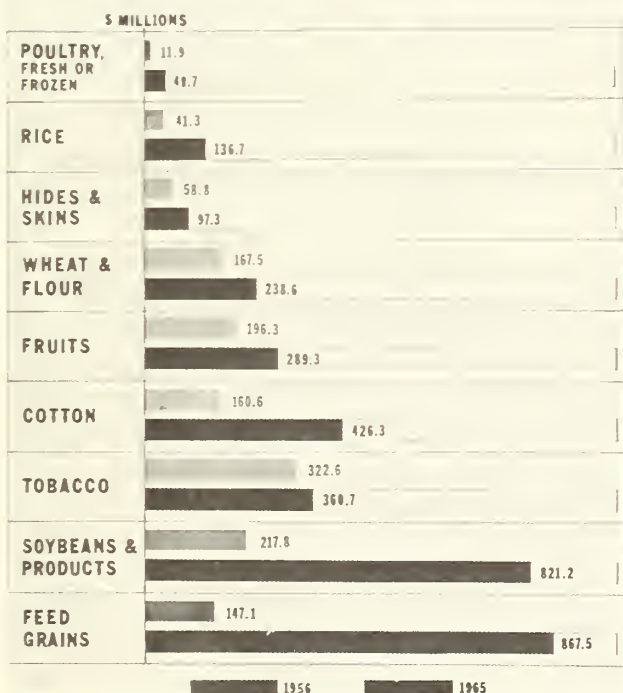
U.S. poultry packing firms displayed U.S. poultry products, and about 10,000 Japanese businessmen were invited to the exhibit, including importers, distributors, retailers, restaurant and hotel managers, institutional food buyers, and food manufacturers. The response to this event has contributed to a spectacular rise in Japanese imports of U.S. poultry.

Commercial Exports since the Program Began

The sharp increase in volume and value of commercial exports since P.L. 480 and the market development program began is common to virtually all major U.S. agricultural export commodities (fig. 11). There are a few exceptions, such as dairy products, which face extremely strong competition from traditional dairy exporting countries. In general, however, exports of the commodities being stressed in our market development program show a strong uptrend since 1956.

- A. Poultry. Commercial poultry meat exports are up from \$11.9 million in 1956 to \$54.7 million in 1964, or 360 percent. This industry started almost from scratch in building an export market. The cooperator opened offices, conducted public relations campaigns, brought buyers to this country, and encouraged sellers to go abroad. The United States was soon supplying 36 percent of Germany's imports, 51 percent of Switzerland's, and sizable quantities in other countries. In 1962, total U.S. poultry exports reached \$81 million. The drop since has been the result of a reduction in our exports to Western Europe because of restrictive Common Market regulations. The poultry industry is expanding its promotional efforts to new areas, including Japan, Hong Kong, Austria, and Greece.

COMMERCIAL EXPORTS ...DURING IMPACT YEARS OF MARKET DEVELOPMENT PROGRAM



- B. Rice. Commercial exports have increased from \$41.3 million in 1956 to \$132.7 million in 1964, or 22 percent. After the loss of the biggest U.S. rice market, Cuba, promotion started in Europe with trade fair exhibits even before rice imports were permitted. As soon as trade was liberalized, the rice industry pressed hard. There are active programs in most West European countries, plus South Africa. Rice exports to the United Kingdom more than doubled between 1960 and 1962 and are still increasing.

- C. Hides and Skins. Exports of hides and skins for dollars increased from \$58.8 million in 1956 to \$80.5 million in 1964, or 37 percent. The principal market development program is in Japan. Exports to the Japanese market have expanded sufficiently to remove the price differential that hides sold on the West Coast had historically suffered in comparison with the Chicago market. This has meant an increase of from \$1.50 to \$3.00 per head on all cattle sold by West Coast farmers.

Figure 11

- D. Wheat. Wheat and flour exports for dollars have increased from \$167.5 million in 1956 to \$605.9 million in 1964, or 262 percent. Looking at the total picture on wheat, the major job in the big cash markets is to work with the trade. In certain developing markets, such as Japan, there is a job to do at the consumer level.
- E. Fruit. Dollar fruit exports have increased from \$196.3 million in 1956 to \$274.3 million in 1964, or 40 percent. The citrus industry has been active in market development in Europe as have the prune and raisin industries. The canned fruit industry and the fresh cranberry industry have recently become active.
- F. Cotton. Commercial cotton exports have increased from \$160.6 million in 1956 to \$529.9 million in 1964, or 230 percent. The cotton market development organization is working primarily in 13 countries in Europe, plus Japan. Emphasis is on increasing consumer demand for cotton products and on offsetting the inroads of synthetic fibers. A recent evaluation by a team of outside experts reported that textile leaders in Europe are now convinced that cotton can be successfully promoted in the face of strong competition.
- G. Tobacco. Cash tobacco exports have risen from \$322.6 million in 1956 to \$385.6 million in 1964, or 20 percent. The tobacco industry has undertaken market development work with excellent results in several countries, particularly in Japan. There are also programs in Thailand, Austria, and Egypt. In tobacco the United States is hard pressed to hold its own against the inroads of competition, such as Rhodesia.
- H. Soybeans and Products. Commercial soybean and soybean product exports have increased from \$217.8 million in 1956 to an estimated \$661 million in 1964, or 203 percent. This was one of the earliest market development programs to get started and is one of the largest. There are offices in 16 countries. Iran is an example of how exports have expanded under this program. In 1959 when the soybean market development program started in Iran, Iranian imports of U.S. vegetable oils were 2,415 tons. This past year they were 31,303 tons, making Iran one of the largest overseas dollar markets for U.S. vegetable oils.

During the past marketing year, oilseeds and oilseed products (including cottonseed oil and meal) returned more dollars to the United States than any other agricultural product group.

- I. Feed Grains. In feed grains, dollar exports have increased from \$147.1 million in 1956 to an estimated \$731.3 million in 1964, an increase of 397 percent. The feed grain industry has been active in market development for several years--principally in Europe and Japan. Growing demand for livestock products in many areas is helping. A good illustration of this program is in Japan, to which exports have increased sharply over the past 3 years.

Exports to less Developed Countries

In improving market development projects, chief emphasis is placed on dollar markets or on countries which are expected shortly to become dollar markets. Projects are approved in less developed countries on a second priority basis.

Market development work in less developed countries has several purposes.

First, since products exported under the special U.S. Government programs are often new to the importing countries, technical information must sometimes be provided to importers, processors, and the government in buying, processing, and handling the U.S. commodities. This is necessary to assure proper use of the commodities and to guard against the bad impression that improper preparation and use might create.

For example, U.S. cotton technicians have worked with the trade in India, Pakistan, and other Asian countries to help solve processing problems connected with U.S. cotton received under the P.L. 480 foreign currency program. This work has been instrumental in creating a better image for U.S. cotton in the Far East.

The U.S. tallow industry is currently working with the soap trade in Turkey to show how U.S. tallow can be blended with the local sulfur oil, a low grade olive oil, in soap manufacture.

The soybean industry is doing similar work in Turkey as well as in Iran, Pakistan, Egypt, and several Latin American countries to bring about greater use of U.S. soybean oil in margarine and table oils.

Bakers' schools in Latin America and other less developed areas have proved an important tool in gaining acceptance for U.S. wheat and flour.

Second, there is frequently a need in the less developed countries for public education to obtain necessary acceptance of unfamiliar products being received under U.S. export programs.

One of the most active programs of this type is the use of mobile units in India and Pakistan to introduce wheat foods to the traditionally rice-eating people of these countries. This program is patterned after the successful use of kitchen buses to popularize wheat in Japan. In Peru, Columbia, and other Latin American countries, school children who normally get most of their starches in the form of beans are learning to like bread made from U.S. wheat through pilot school lunch programs conducted by U.S. wheat producers. U.S. wheat is also being introduced to new Latin American consumers in the form of bulgur--a cracked wheat product distributed under Government programs.

Third, the underdeveloped countries of today are the developed countries of tomorrow, and market development can play a role in making the transition from buying under Government programs to buying for dollars. Other U.S. Government programs help also. This transition has already taken place in several countries (fig. 12).

Perhaps the outstanding example is Japan. In the early years of P.L. 480, Japan bought large amounts of U.S. farm products and paid for them with Japanese yen. In the 1955 and 1956 fiscal years, Japan used this means of financing nearly \$150 million worth of its requirements of wheat, flour, rice, cotton, feed grains, and tobacco.

Japan's recovery and growth since that earlier period has been called an economic miracle. Several years ago, Japan was able to switch over from importing farm products under our special export programs to importing on a commercial dollar basis. Also, the country's foreign exchange position has improved so greatly that it has been able to discontinue some import controls based on earlier balance of payments problems.

Not only was P.L. 480 aid a factor in economic recovery, but the fact that these products were purchased in the United States served to acquaint the Japanese market with the large variety and dependability of U.S. farm products.

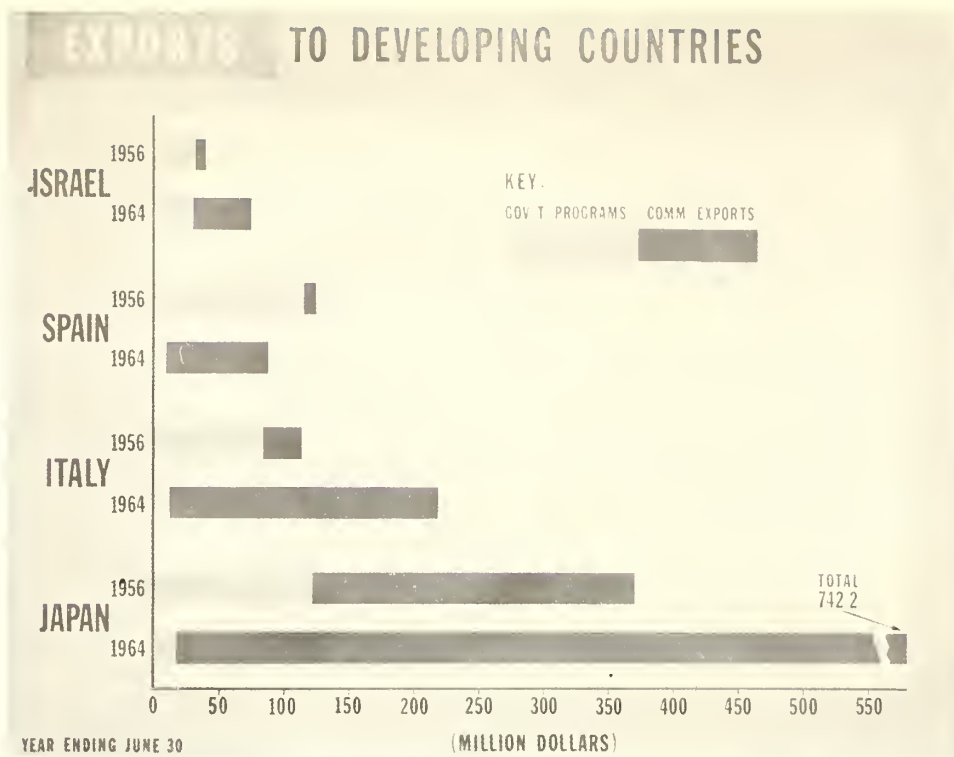


Figure 12

Today, Japan is buying U.S. products for dollars to the extent of more than \$700 million worth a year--nearly three times as much as in the early 1950's. It has ranked either first or second among U.S. agriculture's dollar customers during the past few years.

Italy is another P.L. 480 and market development success story.

Between 1955 and 1960, the United States shipped Italy approximately \$140 million worth of cotton, fats and oils, tobacco, feed and feed grains, and wheat and flour under Title I, P.L. 480. About two-thirds of the Italian currency received was loaned back to the Italians for economic development projects, and the rest was used by the United States to pay the cost of various overseas operations, including market development.

These imported commodities and other economic aid from the United States, along with general European prosperity, launched the Italian economy on a period of dynamic growth that has greatly expanded the demand for U.S. agricultural products.

In fiscal 1964, the United States exported \$207.8 million worth of agricultural products to Italy for dollars, principally feed grains, cotton, oilseeds, animal fats and oils, tobacco, wheat, and flour. This is nearly seven times as much as our dollar exports to Italy at the time the P.L. 480 program began.

Ten years ago, Spain was an extremely poor market for the products of American farmers. Sales were less than \$10 million a year. Large quantities of U.S. farm commodities obtained under P.L. 480 have been important in the country's economic development since. Today, Spain is a large dollar buyer of U.S. farm products, chiefly wheat, soybean oil, cotton, and corn. During fiscal year 1964, its dollar purchases of U.S. farm products totaled \$79.8 million--an increase of about \$70 million over the past decade.

In addition to the successful market development work being done in Spain by the U.S. soybean industry, effective work is also being done by trade groups representing U.S. feed grains, poultry, cotton, wheat, and tallow.

Israel, although it is still receiving some commodities under Title I, is also increasing its dollar purchases of U.S. farm products, chiefly wheat, soybeans, and vegetable oils. Sales of U.S. agricultural commodities to Israel for dollars in 1954 amounted to only \$2 million. During fiscal year 1964, the country's dollar purchases of U.S. farm products totaled about \$45.5 million--an increase of \$43.5 million over the past decade.

An example of the successful market development effort in Israel is the increase in dollar sales of U.S. feed grains. During fiscal year 1964, approximately 208,500 metric tons of feed grains were shipped under P.L. 480 compared with 234,000 metric tons during the preceding year, while Israel's cash imports of feed grains from the United States increased from 60,000 to 190,000 metric tons.

Other recipients of Title I assistance now showing promise as dollar markets include Taiwan (Formosa), the Philippines, Iran, and Poland.

An economic official of the Israeli government recently attested to the importance of U.S. food shipments in building future cash markets for American products. "The P.L. 480 program," he said, "is the 'bootstrap' by which emerging countries can raise themselves into the main stream of international economic activity."

Other Accomplishments

In addition to its contribution to the increase of dollar exports, there are other accomplishments of the market development program which represent long-term plus values of the utmost importance to farmers and the Nation (fig. 13). These include:

More U.S. Firms in the Export Business: Back of the 45 U.S. trade associations which are the formal cooperators in the program are the business firms which make the actual sales. Some of these are established firms which have expanded their exports; others are coming into agricultural exporting for the first time. Poultry promotion in Germany brought scores of U.S. poultry processors into the export program. Soybean promotion under this program has been a major factor in the increased merchandising of soybeans and products by U.S. firms in Europe, particularly the southern part. Mixed feed promotion has brought U.S. feed firms into the European market for the first time. Scores of U.S. businessmen have done missionary work in their industries after serving on survey teams or at trade fairs in the market development program. Many food firms participated in the trade fair program, and more than 100 have done test-selling through this means. Twenty-nine of the firms that have received the government E-Award for export expansion are exporters of agricultural products.

More Foreign Firms are Promoting U.S. Products: Through the efforts of the 218 foreign cooperators plus those of the U.S. cooperators and U.S. firms, a constantly increasing number of foreign firms is being brought into the advertising and promotion of American farm products. Many of the foreign cooperators provide these firms with advertising and promotional materials. Scores of foreign businessmen brought to the United States as members of trade teams have returned home to engage enthusiastically in promotion of U.S. products. In the United Kingdom, many of the major food firms have been brought into the program through an American food promotional campaign arranged by the agricultural attache in the leading metropolitan centers of the country.

OTHER ACCOMPLISHMENTS

OF THE MARKET DEVELOPMENT PROGRAM

MORE

- U.S. FIRMS IN EXPORT BUSINESS
- FOREIGN FIRMS PROMOTING U.S. PRODUCTS
- TRAINED PERSONNEL IN EXPORT WORK
- GROUPS WORKING ON ACCESS PROBLEMS
- EXPORT AWARENESS AMONG FARMERS

BETTER

- ADJUSTMENT OF TRADE PRACTICES TO EXPORT MARKETS
- QUALITY STANDARDS FOR EXPORT PRODUCTS
- RESEARCH DATA ON MEETING EXPORT PROBLEMS
- APPRECIATION OF U.S. PRODUCTS ABROAD

Figure 13

More Trained Personnel in Export Work: When the market development program started, U.S. agricultural trade associations had almost no foreign promotional experience and only a few had promotional experience in the United States. Since then they have learned a great deal. They have learned from the advertising community, from research organizations, from technical experts in marketing, and from the U.S. competitors in foreign markets. This know-how is being passed throughout the business community, and the market development organizations in turn are learning from individual business firms. Today, the 728 non-Government people who are spending most of their time on overseas market development work for the United States and foreign trade groups are using that knowledge.

More Groups Working on Access Problems: Every major country in the world restricts the importation of agricultural commodities to some extent. Among the devices used to bar or limit access are embargoes, quantitative restrictions, seasonal quotas, import levies, gate prices, and the like. Such barriers must be kept to a minimum if U.S. market development work is to be fully effective. This is essentially a government-to-government operation and it occupies much time of many U.S. Government officials. The work of these people is more effective today because of the support of the many private groups and individuals engaged in market development--both in the United States and abroad. These private groups are performing an intelligence function in bringing access problems to the attention of the Government. They are also effective in carrying the U.S. point of view to trade and other groups with which they are cooperating overseas.

More Export Awareness Among Farmers: The creation of strong market development organizations has helped make farmers more aware than ever before of the importance of exports to their economic well-being. Producers are strongly represented in all of the major cooperating organizations. Reports on market development activities reach them through the house organs of these organizations, through extension service representatives, and through the farm press, radio, and other media. This is producing strong farmer support for production research, grade variety adjustments, and other technical changes necessary to better meet agricultural export needs.

Better Adjustment of Trade Practices to Export Markets: Not only farmers but agricultural product processors and handlers are doing more to adjust to the demands of the export market. A freight rate adjustment by the American railroads strongly backed by the wheat industry was a major factor in our ability to develop the Japanese market for hard wheat. The combination truck-rail "piggyback" method of moving refrigerated cargoes domestically is being converted into a truck-ship system for exports, so that Florida fruit, for example, is now moving to Switzerland without ever being unloaded. U.S. processors are also adjusting to export needs in such areas as packaging, labeling, and foreign currency pricing.

Better Quality Standards for Export Products: The Department of Agriculture, at the urging of the FAS wheat cooperators and others, has recently taken a specific action of great importance in this area. It has tightened official U.S. standards for grades of wheat as a means of increasing dollar sales in overseas markets. U.S. wheat users normally buy on the basis of a sample and can see the quality of the grain they are getting. Foreign buyers, who must usually buy on the basis of U.S. Government grades, had complained that they found U.S. grade standards too broad to serve as a satisfactory guide to soundness or cleanliness. This has too often meant a discounted price for U.S. wheat or loss of a sale. The new standards, which became effective June 1, mean less dirt, foreign matter, and dockage in American wheat. As a result, quality factors of weight, soundness, and cleanliness can be more readily and more precisely measured than in the past. This should improve the competitive position of U.S. wheat in world markets--where competition will intensify in the future--and help combat increasingly restrictive trade policies in some areas.

Better Research Data on Meeting Export Problems: Eight years of research on export problems both here and abroad have developed large amounts of useful data. It ranges from highly technical information to broad economic analyses and consumer preference studies. For example, a year's study was made by two Japanese technicians brought to the U.S. oilseed laboratory at Peoria, Ill., to determine whether U.S. soybeans could be used to make miso and tofu--traditional Japanese foods--that would be as acceptable to Japanese taste as those made from the Asiatic beans historically used. As a result of this successful study, selected varieties of U.S. soybeans are now being sold to the Japanese for this purpose. The cotton industry sponsored an extremely useful analysis of all the end uses for cotton and their demand elasticity in various foreign markets. An important study was made of canned fruit in the London market, comparing U.S. fruit with its competitors as to quality, can size, damage to cans, and can fill. A fruit technician accompanied a shipment of fresh fruit from the Pacific Coast to Europe to determine changes taking place at various stages of the trip. Major research has also been done on behalf of feed grains, tobacco, wheat, and other products.

Better Appreciation of U.S. Products Abroad: The market development program has made it possible for millions of people--the consuming public and the trade--in all the industrialized nations of the world to see, taste, and touch the many food and other agricultural products of the United States. For many of them, it was the first opportunity to do so. The growing reputation for quality of U.S. food and agricultural products is an asset that should pay off for years to come.

Conclusion

The trend of agricultural exports has been almost continuously upward in recent years. Total farm exports are reaching new highs, chiefly because of the growth in commercial sales (fig. 14).

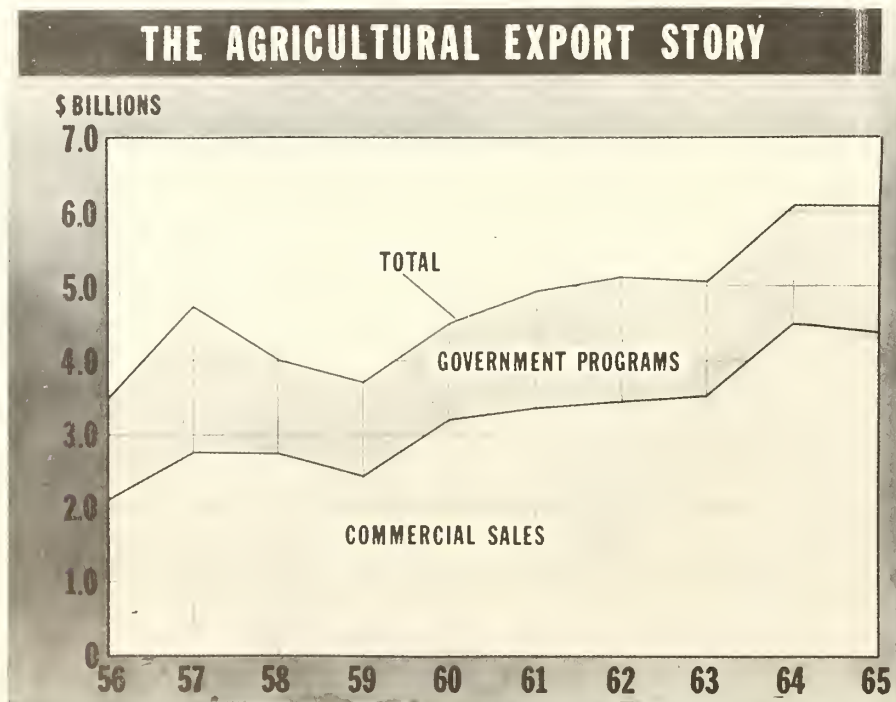


Figure 14

The economic interest of the whole United States in this situation is enormous. It eases the supply pressures on U.S. farm prices. It reduces carry-over storage costs. It provides profits and wages in the many industries that service agricultural exports--financing, transportation, storage, and many others. It helps bring in cash to offset the continued outflow of dollars and gold from the country and to improve the U.S. balance of payments situation.

Even though the market development program initiated under P.L. 480 is only 10 years old and has not yet reached its full potential, the farm producer and trade associations cooperating in it can be justly proud of the contribution they are already making to the Nation's well-being.

Considerations in Appraising Foreign Market Potential and in Conducting Promotion Programs in Foreign Markets

by

Kenneth R. Farrell*

In the immediately preceding paper, Mr. Krogh has presented an overview of the organization and mechanics of foreign agricultural market development projects conducted under Section 104(a) of P.L. 480. He has discussed briefly the need for certain broad types of information as prerequisites to the formulation and conduct of foreign market development projects. Many of the principles concerning the designing, planning, execution and evaluation of promotion programs enunciated in the papers presented during the first two days of this conference are applicable to both foreign and domestic markets.

Within the context of information and viewpoints already presented, I interpret my assignment as consisting essentially of three parts: (1) discussion of the need for economic research pertaining to foreign market development; (2) indication of the types of information and economic relationships which are relevant to an agricultural firm or industry in formulating and conducting foreign market development projects; and (3) discussion of means by which needed information and research might be obtained. I shall limit myself to consideration of the development of commercial markets by private firms and organizations and to the auxiliary role which public institutions and governments might occupy in that process. On the basis of personal experience in Western Europe and work with several California agricultural firms and organizations engaged in foreign market development activities, I shall attempt to illustrate some of the more important economic and institutional differences between U.S. and foreign markets which warrant careful consideration in the formulation and operation of a foreign sales and promotion program.

The Need for Research

Even the most casual reader of U.S. literature pertaining to marketing must be aware of the increasing volume of research in which economics, statistics, and mathematics are brought to bear upon marketing problems of the firm and industry. Underlying that development has been an increase in number of professional researchers, increased emphasis upon statistics and mathematics in the training of economists, the advent of electronic computers, and a growing appreciation on the part of management of the importance of economic analysis in the formation of marketing policies and in the conduct of marketing activities. Although unresolved theoretical and methodological issues continue to surround many of the questions pertaining to marketing and particularly those pertaining to the measurement of the impact of promotion programs, it seems to me that we are moving substantially away from consideration of marketing as an "art," as an area in which decisions are based upon a subjective "feel" of the market, toward a position in which more of the problems are being subjected to systematic and rigorous quantitative analysis. Although many of our analyses are partial rather than general, I would argue that even partial analyses are to be preferred to the absence of analysis provided that they are recognized and utilized as such.

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Most firms seeking to launch a "new" product or product form or to expand sales of a given product in U.S. markets, find market research to be indispensable in the formulation of policies pertaining to product form, marketing channels, price, and promotion. If the research is soundly conceived and conducted, the probability is high that it will make possible a more efficient and effective marketing program than would result from personal judgment alone.

If firms and organizations have engaged in more systematic, rigorous economic analysis of domestic markets, many are less systematic and rigorous in their approach to development and exploitation of foreign markets. This contention is, in part, the result of personal observation in working with agricultural marketing firms and organizations in this country on matters pertaining to both domestic and foreign markets. It is, in part, based upon the conclusions of other economists who have had the responsibility of evaluating foreign agricultural market development projects.

In their evaluation of market development projects in West Germany, Learn and Houck concluded that two of the important weaknesses of the projects which they studied were "(1) little detailed evaluation of the market situation and the potential for market development, and (2) failure to establish a specific well-coordinated plan of work prior to the start of a project." 1/ An appraisal of similar types of market development activities in Italy lead Stelly and Kirby to conclude that "the possibilities of establishing a market for the product should be analyzed more carefully before market development or promotional activities are undertaken" 2/ In fairness, it should be indicated that the foregoing studies were conducted in 1961, at which time activities under Section 104(a) were in an experimental stage. However, in a report issued in 1964, Adams in his evaluation of the California dried prune foreign promotion programs stated, "Generally, there is a void with respect to market research. No one really knows what the market is, who the consumers are, what copy is most effective, and what media are most appropriate. With a limited budget, the answers to these questions are doubly important. This void should be alleviated as rapidly as practicable." 3/ The proceedings of a conference on foreign trade held in San Francisco in 1964 contained a similar conclusion. 4/

These contentions do not deny that activities conducted under Section 104(a) of P.L. 480 have contributed to an expansion in foreign demand for U.S. farm products; neither do they deny that some firms have pursued a systematic research program prior to and during the conduct of foreign market operations. They do suggest, however, that economic research might have been utilized more fully and effectively in foreign marketing operations.

It is important to recall, as Mr. Krogh has indicated, that several factors were simultaneously and favorably influencing the demand for U.S. agricultural products in Western Europe and Japan during the same period in which market development activities under P.L. 480 were in operation. Under those conditions of rapid growth in the total demand for imported agricultural products, personal contacts with trade representatives in foreign countries and limited, relatively simple promotion programs may have induced some increase in our exports of farm products. However, if I judge correctly the import

1/ Elmer W. Learn and James P. Houck, Jr. An Evaluation of Market Development Projects in West Germany under Section 104(a) of Public Law 480. Univ. of Minn. Agr. Expt. Sta., Sta. Bul. 455, June 1961, p. 18.

2/ Randall Stelly and James E. Kirby. Developing Markets for U.S. Agricultural Commodities in Italy - An Economic Evaluation. Agr. and Mech. Coll. of Tex., Agr. Expt. Sta., MP-539, Sept. 1961, p.2.

3/ Jed A. Adams. An Economic Evaluation of the California Dried Prune Foreign Promotion Program. San Francisco, Calif. (Mimeo), 1964, p. 8.

4/ Conference on Foreign Trade in California Agricultural Products, San Francisco (Mimeo), July 1964.

of developments of very recent years, particularly in Western Europe, we may find ourselves in an era of tightening competition in those markets. The maintenance or further expansion of our commercial export trade may be influenced importantly not only by the success which the Federal Government has in maintaining access to foreign markets, but also by the extent to which private American firms and organizations are willing and able to engage in systematic foreign market development activities. Underlying any systematic market development project, there must be a systematic, continuous program of research.

Why, as I have asserted, have U.S. agricultural firms and organizations been less systematic and rigorous in conducting market research pertaining to the foreign market than with respect to the domestic market? Several factors may have contributed.

I have already suggested that the conditions of rapid economic growth in those countries which constitute the major part of our foreign commercial market resulted in a favorable economic environment for sales of U.S. farm products. The natural response to such conditions is to exploit immediate opportunities: "A bird in hand is worth two in the bush." But, in so doing, the analysis of underlying structural changes in the market and their implications for longer run market development may be overlooked or relegated to a secondary position.

Total foreign demand for some farm products is small in relation to domestic demand. Export markets for some of the specialty crops of California are "residual" markets utilized after domestic market requirements have been satisfied or as markets to be exploited as a means of maintaining price levels in the domestic market in years of relatively large domestic supplies. Given the rather wide annual variation in total domestic supply of some of these crops, the volume of exports between successive years varies accordingly. These conditions may not be particularly conducive to commitment of resources to research concerning foreign market characteristics and long-run potential.

Another important constraint may have been the availability of U.S. personnel experienced in foreign market operations and in the conduct of research in foreign markets. Differences in language, customs, economic and social institutions, not to mention the paucity of relevant data which frequently prevails even in the most industrialized foreign nations, are sometimes important determinants of the scope and depth of research undertaken by Americans located in foreign countries.

Finally, there is sometimes an implicit assumption that methods of marketing applied in the U.S. are applicable to foreign markets with some minor modifications. After all, are not people everywhere basically like Americans? A "whirlwind" trip through a foreign country sometimes discloses so many apparent similarities with the U.S. market that one is tempted to oversimplify and conclude that he might attain success in the foreign market, if he can only recruit capable associates who will diligently pursue the same policies which have proved successful in the home market. True, people are similar in many respects in their basic economic wants. Shoppers on fashionable Via Veneto and Champs Elysees seem to be pursuing the same ends as on Market Street, U.S.A. However, when you look beyond the fashionable capitals or even upon careful appraisal of the behavior of shoppers in the fashionable capitals, you may find important differences in tastes, preferences and income among those consumers and between the foreign and U.S. consumer. A prudent executive will utilize research to ascertain to what extent significant differences do exist among markets and will develop his marketing plan accordingly.

What Types of Information and Research?

I would like to turn now to consideration of the types of information and research which seem appropriate in appraising foreign market potential and in conducting a promotion program in a foreign country.

1. Supply, Demand and Trade Prospects: One of the first and most important phases in the appraisal of market potential should involve an economic analysis of longrun supply, demand, and trade prospects for the country in question. In brief, analysis is needed to provide an estimate of the maximum potential total sales by all sellers in the designated country or market in some specified time period. This involves examination and analysis of trends in such basic determinants of demand as population and income and the distribution of each within the country. Typically, the analysis will include examination of trends in harvested acreage or numbers of livestock, unit yields, use of technology, total production, total and per capita consumption in the country, exports and imports of major farm products or groups of products. Finally, the analysis will include projections of production, consumption and trade for major products or groups of products under assumptions with respect to the magnitude of such variables as population, income, factor and product price relationships. Ideally, similar types of analyses should be available for countries which are or might become important competitors in the markets of the country in question.

This type of study is obviously not without its limitations even when conducted carefully. Data by which critical supply and demand relationships can be derived are frequently lacking, or if available, they may be of dubious validity. These limitations are particularly severe on the supply side. Even when the data are available, "herioc" assumptions with respect to the future magnitude of critical variables may be required on the part of the analyst. The high level of aggregation of data which is sometimes involved in such an analysis may be a further limitation from the viewpoint of the U.S. firm or industry considering market potential for a single product.

Despite such limitations, these analyses are potentially useful to the firm or industry in ascertaining the broad limits which the market possesses for development and exploitation. If available for several countries, they may prove useful in preliminary considerations of the sequence in which development projects might be undertaken. In addition, they may provide a useful insight into the overall structure and organization of markets in the foreign nation and bring more clearly into focus questions and problem areas which need to be subjected to more intensive research. A number of useful analyses of this type have been conducted or sponsored in recent years by the Economic Research Service of the U.S.D.A. 5/

2. Appraisal of Specific Sales Opportunities: With the foregoing economic analyses as background, the firm or industry must now consider the types of information required to make a thorough appraisal of sales opportunities for the product in question. At this stage, representatives of the industry might obtain useful

^{5/} See, for example, the following: (1) Colin Clark. United Kingdom: Projected Level of Demand, Supply and Imports of Farm Products in 1965 and 1975. U.S. Dept. Agr. Ers-Foreign-19, 1962. (2) James F. Keefer. Summary and Evaluation of the Philippines: Long-term Projection of Supply of and Demand for Selected Agricultural Products (ERS-Foreign-34) with Implications for U.S. Exports. U.S. Dept. Agr. ERS-Foreign-58, 1963. (3) Yair Mundlak. Long-term Projections of Supply and Demand for Agricultural Products in Israel, 1964. See also: A Selected List of Economic Research Service Reports Containing Economic Information on Agriculture of Foreign Countries and Foreign Agricultural Trade of the United States, January 1, 1961-April 30, 1965. U.S. Dept. Agr. Econ. Res. Serv., Washington, D.C., 1965.

insight into the socio-economic characteristics of the foreign market by means of personal observation and discussion with appropriate persons in the foreign country. Although this is probably a desirable and necessary procedure, it is not likely to be sufficient to afford an adequate appraisal of sales opportunities. An adequate preliminary appraisal may require several months and will involve the collection and analysis of relevant secondary data and information and data obtained by personal interviews with informed persons in industry, government, and research organizations. Out of this should come a practical picture of the short- and long-range opportunities and problems in marketing the product.

Various types of information and data will be necessary to realistically appraise market potential for the firm or industry in question. The following classification is by no means complete, but serves to illustrate some of the major types of information and analysis required.

- a. Consumer and Demand Characteristics: The economic analysis which I have suggested should precede the more specific inquiries now under discussion may provide useful information on structural characteristics of demand for the product in question. Estimates of income and price elasticity (own and cross) of demand would be useful in formulating marketing policies and in projecting total market potential for the product in question. Whether such relationships are known or not, it will be important to obtain information on population and per capita income and their distribution. Additionally, data pertaining to education, age, sex, and occupation of the population should be obtained. Although the partial, independent effect of each of the variables upon consumption of the product in question may not be known, it may nevertheless be possible to make rough approximations of the sales potential utilizing experience and relationships encountered in other foreign markets or in the domestic market.

Additional information which would assist in developing the marketing and promotion program includes that pertaining to methods and frequency of use of the product, shopping habits of consumers and the extent of any seasonal variations in demand.

- b. Product and Price Characteristics: It is important to appraise realistically the competitive climate in which the product would be marketed and the share of the total demand which might be secured by the firm or industry in question. Information should be secured with respect to such matters as physical characteristics of the product being marketed by competing firms, the design and capacity of containers used in various levels of the marketing system and the range of prices at which various competitive products are being offered. Historical data on established competitive products sold within the foreign market showing trends of sales by types, size, and price may be helpful in the appraisal.
- c. Market Structure: One hears frequently of the high rate of increase in numbers of supermarkets and the "Americanization" of the food distribution system of Western Europe. Many of these so-called supermarkets are, in fact, relatively small scale self-service stores. In many parts of Europe, the proportion of total food sales accounted for by self-service stores is still very small. Even in a city such as Rome, a relatively large proportion of total food sales is made through specialty shops with limited shelf space and refrigeration facilities and little space for point-of-purchase promotion material. Even if the placement of the product in trade channels may be delegated to an import agent or brokerage firm, knowledge of the retail structure and the merchandising facilities and techniques at retail may be ultimately critical to successful marketing and to development of a promotion program. It is necessary to

have similar knowledge of the structure of other segments of the marketing system and the nature and cost of marketing services available.

- d. Promotion: It is almost certain that the initial promotional program will not be optimum. Yet, with information and analysis of the type suggested above, and by judicious appraisal of the techniques and experience of other firms and organizations in promotion of similar types of products in foreign markets, the probability of major errors in initial promotion programs will be reduced substantially.

Decisions with respect to form and type of promotion, media to be utilized, the audience to which the promotion will be directed, and the content of the program may be influenced by a host of factors in addition to those which I have mentioned. For example, the extent to which mass media such as radio and television should be used may be dependent upon the number and socio-economic characteristics of people who can be reached by such media, the costs of such activities, and restraints which may exist in the country with respect to the type, content, and frequency of such advertisements. A decision as to which of several alternative newspapers or magazines to utilize will be influenced by the cost of copy and circulation in the appropriate socio-economic strata of the population. Point-of-sale promotion material may be feasible in only a relatively small proportion of retail outlets. "Dealer service" may be desirable in some instances and not in others, depending upon existing knowledge of the product, facilities available, etc. The nature of the promotion program will differ depending upon whether the product is to be sold directly to consumers, to institutional outlets, or to intermediate users at which point identity of the product is lost. Generalizations will not suffice in making decisions of this type; factual and relevant information should be obtained and evaluated by competent and experienced persons.

- e. Public Policies and Regulation: In many parts of the world, government intervenes in the economic system to a greater extent than in the United States. The nature of these policies and regulations should be examined as they relate to the importation, distribution, and price of the product in question. Matters such as customs and excise taxes, registration requirements for patents and trademarks, labeling requirements, food and drug laws, should be carefully studied prior to entry into the market.

It is obvious that all of the information and analyses which I have suggested are critical to successful marketing in foreign countries may not be available prior to the commencement of the sales program. That likelihood does not deny the desirability of securing as much of the information and analysis as possible prior to entry into the market. However, it will be essential that the firm or organization provide for collection and analysis of data after the sales program has begun. In fact, it would seem prudent that shipment of the product would be limited initially to relatively small volume "test shipments" to selected markets and that provision be made for collecting and analyzing data of the types which I have suggested. Well-designed surveys should be conducted to ascertain the socio-economic characteristics of buyers of the product, the manner in which the product is used, the frequency and size of purchase, the experience of the wholesaler, jobber, and retailer in handling the product, etc. Although it may be impossible to determine empirically the impact of a promotion program upon sales of the product, a serious and continuous effort should be made to appraise critically methods being employed in terms of the number and characteristics of people being reached, methods used by competitors, theme of promotional materials, etc.

Finally, it is necessary to confront conclusions pertaining to the characteristics and potential of a given market with questions such as the following: Is the industry

or firm in a position to supply the quantity, quality and form of product at the time and in the manner required in the foreign market? Can it do so profitably and, if so, is it likely to be the most profitable among alternative markets including the domestic market? Are sufficient funds available to conduct the promotion programs which may be necessary to exploit market potential? Would joint promotion programs with other organizations be feasible? Will a foreign sales office or trade representative be necessary?

Organization and Conduct of Research

At this point, it seems appropriate to raise the question of how and by whom needed information will be gathered and research will be conducted. It is clear that the collection and analysis of data of the type and scope which I have suggested would be a lengthy process and would require substantial capital investment. However, through cooperative and coordinated efforts among private and public organizations the information and research needs with respect to the most important foreign commercial markets may be attainable at tolerable costs.

It is clear, I believe, that the collection and analysis of data pertaining to foreign markets as it would apply to a single firm are the responsibility of that firm. Whether the research is conducted by persons within the firm, by a private research organization, or by consultants to the firm is a matter for management of the firm to resolve. In any event, these firms should avail themselves of relevant information and research reports published by universities and Government agencies such as the Department of Commerce, the Foreign Agricultural Service, and the Economic Research Service of the USDA. The office of the Agricultural Attache is usually a source of general information and can be extremely valuable to the private firm in suggesting sources of data and in arranging for personal contacts with informed persons in the foreign country. However, the firm or association representing the industry cannot expect the Attache to provide more than a small part of the data which it requires.

In addition to formal research, there are the very practical necessities of contacting handlers in one or more levels of the marketing system, arranging for importation of the product, providing generally for coordination between the parent firm and handlers in the foreign market, collecting and appraising information concerning current developments in the foreign market as they relate to the marketing operation in question. Again, the office of the Agricultural Attache can be helpful. However, if the firm or association is contemplating a long-term sales program, it may find it desirable to locate a permanent representative or sales office in the foreign country. In that case, consideration must be given to the possibility of joint sponsorship of such a representative or office by several firms or industry organizations. Consideration should be given also to the possibility of joint sponsorship of consumer panels in the major foreign commercial markets common to several firms or industries. Properly constructed and operated, they might provide very useful cross-section data pertaining to consumer behavior and could prove to be a useful device in appraising acceptance of imported U.S. products.

If the information to be collected and the research to be conducted are of broad application to an industry or several related industries, university and Government agencies as well as private market research organizations may be of assistance. The role which each might play in these activities is dependent, in part, upon the nature of the activity. The college or university, for example, does not generally provide data reporting services nor does it engage directly in collection of primary data when such activities are not closely and directly related to a well-defined research project. Broad, descriptive surveys and reports pertaining to current developments in foreign markets may be much more efficiently handled by the Federal Government than by either a university or private research organization because of availability of experienced

personnel either in U.S. or in foreign markets. On the other hand, surveys which require extensive personal interviews might best be undertaken by a private research organization. The major potential contributions which the university and appropriate economic research divisions of Government might make are in these areas where technical economic analyses are required as, for example, research designed to determine empirically structural characteristics of supply and demand.

Finally, I wish to suggest that we should commit a larger proportion of our research resources to basic studies of demand, supply, and market structures in the industrialized foreign countries which are now and are likely to remain the principal commercial markets for U.S. farm products. Mr. Krogh has indicated that not less than 5 percent of the funds accruing under P.L. 480 activities shall be made available for market development. I submit that market development occurs not only from person-to-person contacts between would-be exporters and importers and from other types of promotion activities, but also from determination and subsequent exploitation of the economic characteristics of a market. I believe that in the interests of long-run development of commercial markets we must secure a more thorough understanding of the basic, structural characteristics of those markets and the implications which impending changes in structure bear for U.S. agriculture. Frequently, the analyst is confronted with a situation where, for example, there is little or no basis for projecting the future magnitude of supply or demand in the foreign market other than by mechanical extrapolation of trends with some modification based upon purely subjective considerations. As an example, I would like to cite one of the problems which I have encountered in a research project designed to appraise trade prospects for fruit and vegetables in the European Economic Community.

Southern Italy is believed to possess potential for a considerable expansion in production of fruit and vegetables. The Italian Government is making large capital investments to improve the infrastructure of the area, to develop irrigation facilities, and to increase efficiency in farming through land reform and technical assistance. Italy is now a major competitor of the United States in the fruit and vegetable markets of Western Europe. There is currently no adequate basis for appraising the extent to which development of Southern Italy might add to that competition. There is no empirical evidence to suggest even the upper and lower limits of the aggregate response of supply of the area to price as water becomes available, as farm units increase in size, as output-increasing technology is employed. Research commencing at the level of the individual farm and proceeding to the aggregate level of the region is needed as a means of arriving at an answer to the question of the nature of the supply-response function and the rate at which the function may shift over time. The same type of questions pertain to other countries and other commodities. They exist on the demand side of the market and with respect to market structure and organization.

It seems that the foreign country and the United States should have mutual interests in initiating research concerning such basic questions. A beginning has been made by the Economic Research Service of USDA in its support, for example, of research in France, Italy, and West Germany with respect to the livestock-feed grain economy. That project is being conducted jointly by American and foreign economists and will extend over a minimum of 2 years.

A research project of the type which I have described will require the services of competent researchers during a period of several years. It may be costly; it will not produce results which lead to immediate gains in trade. However, it could be of great value in making more adequate and realistic appraisals of foreign market potential and, in turn, in the implementation of longrun foreign market development projects. I believe that more of this type of economic research could and should be done in cooperation with appropriate research institutions in the most important of our foreign commercial markets.

Summary and Conclusions

Provision for collection and analysis of relevant data should constitute an important part of any market development project. This is particularly so with respect to foreign markets where the structure and organization of markets, the economic characteristics of demand, and the social and economic institutions of the country may differ greatly from the United States. In the past 15 years, we have had notable success in expanding commercial exports of U.S. farm products under conditions of comparatively rapid economic growth in the more industrialized countries of the world. To maintain or further expand commercial exports, U.S. agricultural industries may find it necessary to intensify and modify promotion and other types of market development activities.

A variety of techniques and approaches seem desirable in the development or exploitation of foreign markets. The marketing and promotion program should be realistic and practical and as such will require provision for collection and analysis of data pertaining to both the shortrun and longrun market conditions. There is an important role to be played by businessmen and professional research personnel in development of practical and realistic development projects. Research should play an important role in the formulation and guidance of the development project.

Discussion: Foreign Market Development, Promotion, and Appraisal

by

Jed A. Adams

Senior Agricultural Economist

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I too want to compliment our two keynote speakers for their excellent papers. I am in general agreement with their comments. They have raised several thought-provoking issues, and have clearly illustrated that the points discussed during the past two days at this workshop apply equally well to foreign market development programs. Since these points are well in mind there is no need to reiterate them this morning. I will confine my comments to emphasizing selected points raised by our speakers.

I want to preface my remarks by calling your attention to the fact that the Agricultural Code of California is the legislation enabling agricultural commodity groups to secure marketing orders. One of the several permissive provisions a marketing order may contain is advertising or market development. Any advertising and promotional activities conducted under the auspices of a California marketing order must be for industry or non-brand market development only. Many of our industry groups have incorporated this provision in their marketing orders. However, only three carry out foreign market development programs--cling peaches, prunes, and raisins. In conducting these activities, each of these three groups cooperates with the Foreign Agricultural Service and receives an allotment of counterpart funds generated under Public Law 480. This monetary assistance as well as the technical guidance provided by the Foreign Agricultural Service is greatly appreciated by these industry groups.

The question of industry versus brand advertising or market development continually arises. While it would be fallacious to claim that industry activity could supplant brand activity, I do believe that industry advertising and promotion can perform functions that are complementary to brand advertising and promotion. Industry activity can help to create and maintain a favorable climate in which brand advertisers may operate. This is usually done through public relations activities, home economics and food editor activities, some types of market research and merchandising, and consumer advertising. In the domestic market, school lunch recipes and demonstrations have been adequately performed on an industry basis.

The first point raised by our speakers that I want to emphasize is the sentiment the foreign trade conveys with respect to the supply of some California products available for export. Frequently the word "surplus" is used when speaking of that portion of the crop sold in the export market. This causes great distress among the foreign trade because they regard this, as Dr. Farrell pointed out, as a "residual" supply rather than a continuing source of supply. This has some basis of fact because in periods of short crops the domestic demand is satisfied first and the remainder of the crop moved into export. This causes both quantity and price fluctuations which play havoc with the foreign internal market. The conclusion expressed is that California is not really interested in them as a market and consequently foreign buyers turn to alternative sources of supply. They understand and appreciate the problems created by a short crop, but they think they should get a fair allocation of that crop. Manipulation of supply

in the historical manner might maximize shortrun profit but seems to impair longrun market growth. If market development is truly the objective then some provision should be made to adequately supply foreign markets on a continuous basis.

Secondly, I want to emphasize the need for research, not only economic analyses of longrun supply, demand, and trade prospects for each individual country but analyses of structural characteristics. Some advertisers carefully analyze the domestic market and frequently use the same strategy in foreign markets without conducting a similar investigation. The fact that the selected approach is best for the United States is not necessarily a sufficient condition to insure a successful program in foreign markets. Ideally each country should be considered individually for each is extremely nationalistic, having different attitudes, habits, traditions, and institutions. The consumers of a product may differ between countries by age, sex, income group, and location.

The copy and appeals of the message might well need adjusting for the accepted uses and users might be different. For example, it would be of little value to embark on a program of recipes for home baking in Japan since the home baking facilities are extremely limited. The media to carry this message would have to be researched. In the United States it is inconceivable that an advertiser would attempt to conduct a national advertising program through newspapers. However, in England four major newspapers have excellent national circulation and might well be the best media for a national campaign.

Radio and TV commercials are prohibited in some countries and restricted in others. In an effort to keep television advertising entertaining in Italy, only one out of five TV commercials can be repeated in a year. An executive who had an advertising campaign for radio might be surprised when he discovered the only available commercial radio in Denmark was a "pirate" radio station located on a boat in the North Sea.

This investigation should include examining alternative advertising agencies. It seems to be a natural tendency for organizations to use the same agency or their affiliates in foreign countries as is used domestically. This may or may not be a wise choice depending upon the circumstances.

The structural characteristics of the market, including the importing, wholesaling, and distributing functions, should be examined. It might be interesting to know that as few as three organizations control as much as 90 percent of the retail food outlet in some European countries or that imported food products in Japan pass through several progressively smaller "wholesalers" before reaching the ultimate consumer. Knowledge concerning the size of the stores and store facilities is important if point-of-purchase material is contemplated. Large pieces of display material to which we are accustomed would completely dwarf most of the European and Japanese stores. Refrigeration facilities are limited both in the store and in the home.

Knowing that each country is extremely nationalistic and has different mores and structural characteristics, it is impossible to establish a unique, infallible rule with respect to who should conduct this research. The only guideline that can be set down is that research is essential prior to initiating a market development program and that nationality is not a sufficient condition to select the one who conducts it.

The third point I would like to emphasize is the increase in the standard of living. Although per capita income of foreign countries is not equal to that of the United States, the people in Europe are not bashful about informing one they have the funds to purchase quality products. Although they are price conscious in certain respects, the people in foreign countries do not want to be regarded as a dumping ground. For example, I was told by an executive in Switzerland that the manager of one of his retail stores divided a carton of oranges and put substantially different prices on each portion. The lower priced portion did not sell while the higher priced portion did. Transferring

oranges from the lower priced basket to the higher priced basket produced sales. The explanation of this phenomenon was that the lower priced oranges were judged inferior by the consumers on the basis of price alone. While this example may be a little extreme, it is generally typical of the sentiment expressed.

Finally, advertising competition among alternative supplying countries for a given commodity in foreign markets is terrific. If the treadmill concept of advertising as discussed in previous sessions of this workshop is valid, then one can only conclude that it is already running in foreign markets. In addition to promoting a single commodity, other supplying countries conduct a "national" or unified promotion program covering all the agricultural commodities they export to the particular foreign country. Australia is a good example of a country conducting this type of program. Several million dollars are spent stressing the salient qualities of the several products from the Land Down Under. The most common symbol used to identify the Australian promotion and products is larger than mansize cardboard kangaroos placed in stores. The kangaroo symbol is also used in their media advertising. One advertising man confided that Australia had the jump on us.

Several people in Europe have strongly suggested that the United States should conduct a similar unified program if we are to retain our share of the market. This might be difficult on a "national" basis, but nevertheless the suggestion is well worth consideration. As Mr. Krogh indicated, a partial unified program is being conducted in the United Kingdom by the Agricultural Attache in the form of trade fairs and special promotions. They are most impressive and appear to be highly successful.

In summary, there are several factors that should be considered prior to initiating a foreign market development program. Among them are: (1) the availability of a continuous and reliable source of supply, (2) an understanding of the structural characteristics of the particular market, (3) the realization that foreign markets are quality markets and not dumping grounds, and (4) the type and quantity of advertising competition from other supplying countries. Generalizations are usually invalid when speaking of foreign market development.

Discussion: Foreign Market Development, Promotion, and Appraisal

by

A. William Jasper
American Farm Bureau Federation

In the brief time available, I will attempt to do three things. First, I will comment on the two major papers presented this morning. Then I will mention Farm Bureau's role in foreign agricultural sales and promotion activities. Finally, I will express some general views with reference to foreign trade, including AFBF policy.

Mr. Krogh did an excellent job of describing what we might refer to as P.L. 480 market development activities of the Foreign Agricultural Service, U.S. Department of Agriculture, and its cooperators. The P.L. 480 activities with which we are concerned fall primarily in the promotion category, and Mr. Krogh has proved himself to be an enthusiastic promoter. However, he leaves me with the impression that a large overseas promotional activity, with accompanying office and staff, is desirable for each major commodity we produce. This, I submit, is not necessarily so.

Mr. Krogh uses the Japanese wheat program of recent years as an example of the fact that market development overseas can be of maximum effect only when U.S. products have access to the market and are competitive in price. This definitely is true. However, I believe that all of our products, at least in the long run, should meet these requirements relative to availability and price without subsidy. If there are products that we cannot export successfully without subsidy, it is doubtful that we should be moving them in foreign trade.

Exports indicate that some of our commodities are presently in jeopardy because we simply aren't competitive on price and, in some instances, on quality and/or variety. Furthermore, trade is a two-way street. We can't sell if we won't buy.

Mr. Krogh refers in his paper to trade barriers which are or can be imposed by importing countries. He points out, and rightfully so, that such barriers must be kept to a minimum if U.S. market development work is to be effective. I am not sure, however, that every facet of this matter of trade barriers must be a government-to-government matter. A lot of work is being done rather quietly by private organizations to help break down some of these trade restrictions but, unfortunately, not as much as we would like or need.

Better quality standards for export products came in for some discussion by Mr. Krogh. He implies the necessity of maintaining high standards. I think it is fair to say that our successes in developing a market for broilers and turkeys in some European countries...before the imposition of severe EEC restrictions a couple of years ago, and since...occurred in spite of the potentially damaging effect of the appearance of some low quality packs in export trade. Fortunately, we have made much progress in correcting this situation. We simply cannot afford to lose markets because of shoddy merchandise being shipped abroad.

Mr. Krogh said that we now have better research data enabling us to better meet our export problems. While this is true, we must turn to Dr. Farrell's presentation to realize the tremendous amount of effort which must be expended in this area as we move into a more competitive future.

While no one would quarrel with Mr. Krogh's conclusions, I do want to make a few constructively critical observations concerning his entire presentation, and then ask a few questions. It seems to me that Mr. Krogh almost completely overlooks the sales efforts of business firms which are not dependent on Government-sponsored trade association offices. He greatly minimizes the effects on our overseas exports of certain unsound domestic price programs. He overstates the "dollar sales" aspect of the export situation by neglecting to account for U.S. subsidies and government-to-government cut-price sales. And finally, Mr. Krogh completely overlooks the proper role of government in developing an environment in which freer, more competitive trade would be possible.

I would like to ask Mr. Krogh, are we making the best use of counterpart funds in our trade development program? Are we relying too much on P.L. 480 sales to build permanent markets? Is it monopolistic for the Foreign Agricultural Service to recommend order-book contacts only to cooperators?

Dr. Farrell must be commended for his excellent paper. The major emphasis is on the need to research foreign markets, both potential and realized, on the same continuing basis that we research our domestic markets. If anything, this research deserves special attention because of the added risks involved in export trade. Dr. Farrell effectively illustrates some of the more important economic and institutional differences between U.S. and foreign markets which warrant careful consideration in the formulation and operation of a foreign sales and promotion program.

Dr. Farrell touched on a key point in suggesting that we may soon find ourselves in an area of tightening competition, particularly in Western Europe. This would be true even without the addition of more recent import restrictions. There is the further, but related aspect of moving, in the case of some commodities, from a sellers' to a buyers' market.

I think no one can disagree with Dr. Farrell's observation that systematic economic analysis may become an increasingly important determinant of our volume of commercial trade in farm products. However, we might change "may become" to "will become."

Dr. Farrell refers to some export markets as "residual" markets that are utilized after domestic market requirements have been satisfied, or as markets to be exploited as a means of maintaining price levels in the domestic market in years of relatively large domestic supplies. One of the most common complaints on the part of the foreign buyer is that he has no assurance of a stated supply. To be successful it would appear necessary for the export phase of our total market to be as well organized as the domestic phase. This probably would mean a policy decision as to how much of the product will be set aside for export and the development of a definite sales program to back the decision.

Time doesn't permit an evaluation of all factors that must be considered in a successful overseas sales and promotion program. However, we must constantly keep in mind, as Dr. Farrell so clearly states, that foreign markets are different. I would add that we should recognize more clearly the need to send commercial salesmen overseas. U.S. agriculture has not been adequately represented by salesmen in the export market. In my classification of salesmen, I mean salesmen other than brokers and agents such as have been historically used in the development of a foreign market.

Dr. Farrell noted that in many parts of the world, government intervenes in the economic system to a greater extent than in the United States. He said, "The nature of these policies and regulations should be examined as they relate to the importation,

distribution, and price of the product in question." I agree. I would add, however, that we should not lose sight of the corresponding governmental intervention in our own country and its influence on our markets, both at home and abroad.

Farm Bureau Trade Office 1/

In 1957, as a result of delegate body action, the American Farm Bureau Federation board recommended to the officers and staff that they do something towards developing and expanding agricultural markets at home and overseas. As a result, we now have two corporate affiliates engaged solely in marketing activities. Domestically, there is the American Agricultural Marketing Association. Internationally, we have the Farm Bureau Trade Development Corporation, with offices in Chicago and Rotterdam, Netherlands.

Our foreign trade activity was established solely with AFBF funds. We never have used any P.L. 480 money in our foreign market development work.

The Farm Bureau Trade Development Corporation was incorporated in 1960, although we were doing promotional work in Europe before that. At present, the principal objective of the Corporation is to expand overseas markets for U.S. agricultural products by providing an export sales service to cooperating State Farm Bureau trade development affiliates and cooperating commodity suppliers.

The Trade Development Corporation now has agreements with 16 State Farm Bureaus or their marketing affiliates. It also has under contract a number of suppliers who handle a wide variety of farm products and processed foods made from farm products.

The program embraces commodities produced on farms from the Canadian to the Mexican borders, and from the eastern to the western seaboard. This means that the program now is serving thousands of our farmer members; it has the potential for serving many more.

The Chicago office provides leadership in developing business arrangements with domestic suppliers who are willing and able to sell large quantities of uniformly high quality products on a continuing basis. It works with State Farm Bureaus participating in the export program and with the suppliers themselves.

The Rotterdam office has the never-ending task of developing a clientele of European buyers who wish to procure U.S. agricultural products direct from suppliers on a continuing basis and under agreement with our Trade Development Corporation.

Contacts have been established with reputable importers who are willing to cooperate with the Trade Development Corporation on a mutually advantageous basis. These importers, who are located in key European markets, have in the past found it difficult to obtain dependable sources of supply.

The Trade Development Corporation is concentrating its efforts on those commodities for which there are reasonable opportunities for sales and where the sellers are willing to cooperate to gain recognition and acceptance of their products in the European market. The Trade Development Corporation provides certain services to U.S. farmers, other services to U.S. exporters, and still other services to overseas buyers. It is the only organization that is devoted exclusively to the economic interests of U.S. farmers and concerned about increasing commercial sales overseas of many of our farm commodities.

1/ This section adapted from paper entitled "The Role of the Farm Bureau Trade Development Corporation," by Donald E. Hirsch, 20th AFBF Institute, Bloomington, Ill., May 4, 1965

Nationally our major agricultural commodities in the export trade are wheat, cotton, tobacco, soybeans, and feed grains. But we also sell fruits and vegetables (fresh and frozen), dairy products, meat products, and other products including such items as honey and seeds.

The Farm Bureau Trade Development Corporation provides certain services of value that are not available, in their entirety, from other organizations in the export trade. I would like to cite a few of these services.

For Farmers

The Trade Development Corporation serves farmers in the U.S. by:

1. Providing an effective export sales program that helps raise domestic farm prices above the levels that otherwise would exist. This means higher net incomes for farmers.
2. Providing direct representation for farmers in overseas markets. Many of the largest U.S. firms that handle our farm commodities are already established in Europe. In some instances, however, they are using their American know-how and capital to process and merchandise products made from agricultural raw materials that were not produced in the United States. This situation provides us with a problem in terms of meeting competition but an opportunity in terms of giving undivided attention to export opportunities for U.S. farm products. No other organization--private or governmental--offers a specialized sales service devoted exclusively to the economic interests of farmers of this country that helps increase commercial sales overseas of many of our farm commodities.

For Suppliers

The Trade Development Corporation serves suppliers in the United States by:

1. Providing continuous representation in Europe. Importers necessarily are most concerned with their buyers' needs, desires, and interests; in today's market it is easier to find another supplier than another buyer. Thus we are the U.S. supplier's representative overseas.
2. Assisting in the location of reputable buyers, including checking on credit ratings, and servicing the accounts that are developed.
3. Providing information on European market needs and potentials, consumer preferences and buying habits, competitive situations, new sales opportunities, and such other information as may assist suppliers in making management decisions on trade development matters.
4. Assisting on problems relating to display of samples, obtaining adequate transportation for commercial shipments, preparation of papers needed for export and import clearance, scheduling arrival times for shipments, reconciling problems related to quality of product at time of delivery, etc. The Trade Development Corporation, whenever necessary, selects or recommends freight forwarders or other export specialists who can assist at various marketing stages or with technical problems peculiar to the export business.

For Buyers

The Trade Development Corporation serves overseas buyers by:

1. Providing them with dependable sources of supplies of U.S. farm commodities and finished products made from such commodities. This means that the overseas buyer can deal with suppliers who are financially responsible, have adequate quantities of product, are interested in making continuous offerings over a period of time, ship products of the kinds and quality needed by the buyer--and as specified in the sales contract--and make deliveries when, where, and how the buyer wants them.
2. Providing them with a seller's representative in Europe who may be contacted at minimum expense and who can act quickly to resolve problems involved in shipment or delivery of the products purchased.

Other Considerations

Farm Bureau has seven full pages of policies dealing with international affairs. Fifteen sub-topics are included. These policies have been developed, revised, and refined over a period of many years. They will continue to be reevaluated by our delegate body at each annual meeting.

I would like to call your attention to portions taken from the "International Affairs" section of our Farm Bureau Policies for 1965:

International Trade

American agriculture has an important stake in a high level of mutually advantageous world trade. Exports represent a significant part of the total market for our agricultural production--one acre out of four harvested is produced for export. From 30 to 50 percent of the production of several of our important agricultural products moves to foreign customers.

All farmers have an interest in maintaining and expanding farm exports. If world markets are decreased or lost, the land and resources which have been used to produce for those markets will be utilized in the production of commodities for the domestic market, which in many cases is already over supplied. This would depress prices and reduce farmers' net income.

Imports are also important to farmers. Many supplies necessary for agricultural production can be, and are, imported. This helps to alleviate the serious price-cost squeeze which farmers are presently experiencing.

Expanded world trade is in the best interest of every citizen because it can strengthen the unity of the free world and be one of the most important elements in attaining world peace. Trade is a better foundation for our foreign policy than aid.

Program of Expanded Markets and Commerce

Our national foreign policy should be based on a systematic reduction of Government intervention and restrictions in foreign trade.

The Trade Expansion Act of 1962 should be administered vigorously with full utilization of the authority granted by Congress. However, effective negotiations require that other nations accord the United States the full benefit of past and future

concessions made to this country. Several countries have retained restrictions on our agricultural exports which are neither consistent with existing trade agreements nor justified by present conditions.

Effective negotiation requires the strict implementation of Section 252 of the Trade Expansion Act. This section directs the President not to grant additional tariff concessions to countries which impose against U.S. exports variable fees or other restrictions contrary to existing trade agreements. It authorizes the withdrawal of concessions on products of countries that persist in these practices.

Agriculture should be considered a full participant with other export industries in the benefits of trade negotiation. A policy of setting agriculture apart from other segments of our economy would seriously jeopardize the entire trade program, restrict important agricultural markets, and prevent agricultural exports from making their maximum contribution to our country's export earnings.

International Commodity Agreements

We oppose any attempt to set apart agricultural trade and to divide international agricultural markets through the use of international commodity agreements. Government allocation of international markets and determination of prices would seriously restrict the American farmer's opportunity to expand markets and substantially reduce net farm income.

We insist that agriculture be allowed to compete in world markets without impairment by international commodity agreements. We vigorously oppose efforts to inhibit market expansion and limit U.S. exports to a specified amount or a determined share based on some arbitrary base period politically determined in international negotiations. Market sharing, or international supply management, penalizes efficient producers and encourages uneconomic production. It would base our future opportunity to expand markets on political negotiations rather than on our economic ability to compete. This would open the door to additional efforts to place American agriculture under Government control programs.

Trade Policies

We should offer farm products in world markets whenever it will advance the best interest and security of the United States. In any proposed sale of agricultural commodities to communist countries, the national interest and welfare of the United States should receive highest priority. We favor such sales only when they have been determined to be consistent with national security and when made by the private trade on strict commercial terms without credit guarantees by any agency of the U.S. Government.

Trade Development Act

P.L. 480 has moved tremendous amounts of surplus agricultural products to many nations which would not have been able to obtain them through normal purchases. However, it has become more and more an economic assistance program.

Export movements under P.L. 480 should not replace or interfere with dollar sales. It is not consistent with the purpose and intent of the law to embark on a program of encouraging production to expand Government financed movements or to attempt to justify unrealistic domestic programs by citing the availability of foreign currency sales as a means of exporting surplus production.

Concluding Remarks

There is no doubt that we should keep fighting for our share of foreign markets everywhere. We need to be positive, aggressive, and keep chopping away at protectionism.

Our stakes in more liberal trade are tremendous. We can't be indifferent when our trade is endangered.

Farm Bureau supported the Trade Expansion Act of 1962. We recommended to Congress a specific amendment to the trade bill designed to make certain that the United States gain true reciprocity in trade and tariff negotiations. This is known as Section 252 of the Act.

Section 252 directs the President to adopt a tough policy at the bargaining table. He is directed not to grant additional concessions to countries which are imposing variable fees or other import restrictions that are contrary to existing trade agreements. He is directed to cancel previous concessions made to countries which persist in such practices. Section 252 must be implemented with firmness and vigor.

In spite of problems and complications, we must continue negotiating and hope to achieve a further relaxation of trade restrictions. Mutual concessions might be necessary, but as Raymond A. Ioanes of USDA's Foreign Agricultural Service commented, "Negotiation is not all concession...if reciprocal treatment is not accorded us, the law directs that the bargain be redressed."

The problems are complex but not insoluble. Mr. Ioanes says, and we agree, "They can be solved if men of like mind and good will address themselves earnestly and zealously to the task of freeing world trade in farm products for the benefit of mankind."

Thank you.

The Development of Foreign Markets
For California and Arizona Citrus

by

D. F. McMillen
Assistant General Manager, Sunkist Growers, Incorporated

Like most companies beginning a market development program, Sunkist's beginning in the export business was small. It is reported to have taken place just prior to 1900 and was in the form of a gift box of navels sent to England's Queen Victoria.

In those early days, the exportation of perishable foods was nearly impossible due to the slow methods of transportation and facilities available for keeping the commodities in proper condition.

Exports of any real significance did not begin until the latter part of the 1920's when production of oranges increased to such a degree that the domestic market was becoming depressed. Along with the increased production was an increase in small-sized oranges, sizes that were not readily acceptable to consumers.

This combination of larger crops and small sizes prompted the Sunkist directors and management to begin exporting in substantial quantity in order to stabilize the domestic market. The pressure was put on to move several million boxes to European markets on a consignment basis, which meant that we really did not know what kind of price we would receive for the fruit. But by relying on the judgment of our distributors along with our own men in the foreign countries as to the quantities they felt could be sold, we managed to get our foot in the door. After the trade in Europe got started successfully, we moved on to a regular basis of sale--that is, price before shipment for specified quantities needed.

So this was our real beginning in the export business which was prompted by an economic need and a recognition of sales potential. Since these beginnings, we have seen several periods of reduced volumes caused by wars and depressions; but in 1963-64, nearly 11 million cartons of fresh citrus and approximately \$10 million in byproducts were sold in some 80 different countries by the California-Arizona citrus industry. None of these figures include an estimated 9 million cartons of fresh sales to Canada and a substantial dollar volume of byproducts. Even excluding Canada, in 1963-64--referring to fresh citrus only--the production from nearly 1 out of every 6 acres of citrus grown in California and Arizona was exported.

For the California-Arizona growers who make up the Sunkist organization, these sales to Canada and other nations are vitally important in broadening and strengthening the market and making significant, increasing contributions to the returns growers receive for their fruit. Creating markets of this magnitude has been a demanding, complex operation involving countless considerations.

One of these considerations, and certainly one of major proportion, has been concerned with utilizing the Foreign Agricultural Service program in developing better foreign markets for the citrus produced in California and Arizona.

Beginning in 1962, the California-Arizona citrus industry signed an agreement with the Foreign Agricultural Service for a market development project for California

and Arizona citrus promotion in Belgium, the Netherlands, France, Sweden, West Germany, and the United Kingdom. This original project was divided into two parts: first, promotional activities; and second, a study of fruit quality.

Concerning the first part of the project, promotional activities, we believed that a film presentation of our citrus industry would have the best opportunity to educate and inform the current and prospective consumers of our citrus at a minimum cost. We could have used a standard advertising approach, but because of the extensive story we had to tell and because it was one that could entertain as well as promote our citrus, we were convinced that our basic approach should be different.

After considerable research and investigation among educators, Government officials, film distributors and our own fruit distributors in western Europe, we decided upon a film presentation of our industry that would be suitable for cinemas, trade, schools, and the consuming public.

The film was developed as a California-Arizona travelogue featuring usual tourist attractions, scenery, sports, and recreation. Then we wove into it the complete citrus story from plantings to unloads in European ports. The science of citriculture is a prime feature including irrigation, bud selection, planting, cultivation, picking, packing, and shipping. No reference is made to chemical treatment, but sanitation and care in handling is paramount.

To date, film versions have been made in the French and German languages as well as what we call an English continental version. To distribute the film we have made a contract with United Artists who, in turn, have distributed these films in West Germany, France, Austria, Switzerland, the Netherlands, Denmark, Norway, Sweden, Finland, and Belgium. This film is entitled, "Land of the Generous Sun," and has been seen by 2.3 million Europeans to date, and is expected to reach, eventually, between 7 and 8 million viewers.

A secondary, but still very important, part of our promotional activities was to prepare California-Arizona Citrus Industry advertisement inserts to run in the International Fruit World, a trade publication. These inserts followed the format of the magazine itself and were printed in French, German, and English. After the inserts were run, 50,000 copies were bound with an appropriate cover and distributed throughout Europe. This booklet has served as a sales promotional tool, giving the complete story of the western citrus industry.

In addition, when our lemon export volume picks up in the spring, we utilize radio commercials which help to announce the arrival of our fruit in Europe.

The next step in our plans is to prepare a recipe and use film to be in distribution by September. Since not all schools have motion picture projectors, we will also prepare a series of slide sets with collateral teaching material.

As one source of information on citrus uses in the several countries, the California-Arizona Citrus Industry, in cooperation with FAS, conducted market research at the consumer level in West Germany, France, the Benelux nations, and currently in the United Kingdom and Sweden. Because uses are different among the nations, this research is highly important in the preparation of the audiovisual media.

I mentioned earlier that the second part of our market development project was a study of fruit quality. In western Europe, the competition from the citrus-producing countries in the Mediterranean region as well as from South Africa and South America is formidable. We knew that if we were to compete and increase our share of this growing market, we must provide our European customers with consistent and dependable quality. For this reason, we stationed one of our leading citrus inspectors in Europe

to inspect our fruit at the harbors and at the wholesale and retail markets and report back to us on the condition of our fruit. His work indicated that our competitive position could be improved if better grading procedures were followed at the shipping point. The reporting system included a semimonthly report to the citrus industry and individual reports to the different shipping organizations. Colored slides were taken of the fruit that showed excessive decay or any other defects that affected the marketing of the fruit. Slides were also taken of competitive fruit in order that the California-Arizona shipper might be better informed about the quality of the product being marketed by other citrus-growing countries.

As a result of these efforts, improvements in grades have been made; and because of the valuable contribution of this program, the citrus industry has requested its continuation.

In 1963, an additional important step was taken by the industry in cooperation with FAS. If you are at all familiar with the rules and regulations pertaining to tariffs, nontariff barriers and food laws within the Common Market, you recognize their complexity. Because of their complexity and our need not only to understand how to comply with them, but to keep the Europeans informed of our needs and recommendations, we stationed a very capable citrus man in Brussels to act as Liaison. This has proved a strategically sound venture as we have seen a substantial amount of progress in connection with the solution to a number of problems of market protection, access, and development in Europe.

During 1965, in addition to continuing the program in western Europe, we have initiated a market development program in Japan. The first stage is a consumer research survey directed to the objective of measuring uses, images, and sales potential.

The Role of Public Research in Market Development and
Promotion Programs for Agricultural Products as Related to Research

by

Robert E. Branson
Texas A&M University

In discussing the role of public research agencies, perhaps one should initially make reference to the fact that there undoubtedly is confusion and misunderstanding by some as to the role of public or governmental market research groups. Accusations of duplication of effort between governmental and private research, and between university and U.S. Department of Agriculture research invariably must arise, at least occasionally.

Therefore, it is desirable to immediately clarify this issue first and then move on to what, it seems to me, are more important subject matter areas.

Granted that professional skills and facilities in governmental and private research are, or else can be made, comparable and that the research areas, in terms of the total spectrum of research projects, is, by and large, comparable, there are a few notable and important differences.

In the first place, government-conducted, or financed, market research, as is generally recognized, must, with a few exceptions, be published to the public. This divides clients served and research objectives almost immediately. Second, private companies work primarily for private business clients, though they too may occasionally also work for industry and commodity groups or associations as well. Third, it must be recognized that, on the governmental research agency side, the private client is, for most practical purposes and obvious reasons, almost automatically excluded. His private brand information or goals cannot be promoted by public agencies, nor does the private company, on the other hand, want its market activities and strategems made a matter of public knowledge and thereby placed in competitors' hands.

In view of these considerations, what should be the role of the publicly sponsored market research service? It seems to me that there should be general agreement that its role should be, first and foremost, to sponsor and contribute to the overall advancement of the science and to further its use as a management tool. If we accept this major role as a general objective, how, first, should such a goal be accomplished, and why, secondly, is it a desirable one to pursue? This is a central and highly relevant question, at present, because of the existence of considerable confusion in the minds of both those in and out of agricultural product marketing research.

The initial phase of the role of public market research agencies is to establish what I choose to call concept identification of marketing areas and problems for agricultural commodity groups. Many, if not most, commodity groups lack an elementary, much less sophisticated comprehension of their basic marketing problems. Lacking this understanding, there is nothing to motivate interest, action, or concern over the need to finance research to obtain solutions to their marketing problems. As we too often observe, the producer merely sells his product; he does not market it.

The foregoing situation obviously represents a need that public agency research must meet and endeavor to correct. The job done thus far, in this respect, is far too insignificant. Much of the marketing problem for these commodity groups lies in the

area of the posture that their product assumes at its final and not its initial marketing point. It is difficult to get this realization across when many in land-grant universities have not themselves awakened to the significance of this problem. Much has been done in the analysis of the marketing problem within the confines of the initial sale by the producer to a first handler or processor. By comparison, only a meager and scant amount has been done regarding the marketing problems relating to the final consumer.

I would argue, therefore, that publicly sponsored research is necessary to jar the relevant agricultural groups out of their complacency and to spur them into establishing a better and more efficient total marketing program in their behalf. It would be difficult to deny that this produces not only producer benefits, but also, and equally if not more important, consumer benefits as well. And it should, for it is financed by both segments and mostly by consumers at this stage.

It is difficult for some to comprehend why the above is true. All they see is added cost of research programs, packaging, displays, promotion, and advertising which are classed by many economists, in particular, as areas of social waste. Completely overlooked is the fact, obvious around us, that attention to marketing problems leads inevitably to product innovations and marketing innovations that redound to the ultimate consumer's benefit. This is not to deny that these are exceptions, but to concentrate on the latter and deny the former is but to be oblivious to the real scope and benefits of marketing activity.

In my judgment, the foregoing role could well be considered as the "nest" stage of market research endeavors by public agencies. It is the one in which the objective is to nurture the commodity group to a stage of recognition of the "beyond the farm gate" problems.

The second phase of the role of publicly financed market research is to sustain interest in the marketing problems and assist in financing early research attempts by the commodity groups themselves. This phase is equally crucial and necessary to safeguard the early, or fledgling, stages of market development programs within the commodity groups or organizations.

In this second stage, the practical application of research results can be tested, their strengths and weaknesses realized without as much fear for the total collapse of the program. Lightening of the monetary investment and task of research interpretation and application at this stage of an initial group effort can well mean the difference between the total demise of a program and its fruition into a full grown, vigorous activity. Probably most agricultural commodity groups who have recognized and accepted their marketing responsibilities are still in this secondary, fledgling stage of development.

Phase three is to service the mature agricultural group's marketing program in special ways to which publicly financed research is uniquely suited. It is here that I should like to place some special emphasis. Not because it is more important, but rather because it is here that some of our marketing research workers and administrators are having to presently grope their way in reaching for guidelines and criteria.

Important it is that university research, in particular, endeavor to be a balanced wheel in the agricultural product marketing research effort. From my observations and experience, it is less subject to political pressures and oscillations in subject area interest than is true for either the U.S. Department of Agriculture or State agricultural departments. Personnel in these latter organizations are not inherently vacillators. Rather, the allocations of funds effect shifts that become almost, if not entirely, unavoidable. Furthermore, it is important that the university research administrators and researchers contribute significantly toward the establishment of goals for a broad marketing research effort. There are reasons to believe that the latter can view the problems somewhat more objectively and more in their entirety.

Although a mature market-minded agricultural group may be able to administer and finance its own market research program, there are certain tasks and situations which inevitably are beyond it. These are instances in which university or public agency research is needed because, due to the nature of the problem, a more objective job can be accomplished by them. That is to say, the role of research arbitrator, on occasion, needs to be assumed by a third party.

With all due respect, and I have much, for the advertising profession, and I myself work with two of them in my area, they cannot provide all the necessary "rudder" to guide the craft. Their client is far too impatient. And even given the research necessary, the client is frequently too naive to either comprehend or digest its significance.

Another equally, if not more, important function is to undertake developmental research programs designed to expand or refine our professional tools for market analysis. Accomplishment of objectives in this sphere comes slowly, and often at considerable expense. A single agricultural product group does not have, or seldom has, a sufficient depth of finances or human patience to see the objective through. Even if it does undertake a single endeavor of this type, it is not able, single-handedly, to support a full-scope program of this nature. Facets needed by other commodity groups, of course, seldom, if ever, would be undertaken.

Procreator and evaluator of market research methods and techniques is, therefore, an inescapable role of all public research agencies. Without this function being performed, the total marketing effort would be minus a necessary part of its guidance structure.

There are problems in accomplishing the foregoing roles. Cognizance of them will help in this solution. Perhaps the initial one is to develop some reasonably coordinated concept of a plan of attack. The following could be cited as a case in point.

Many commodity groups as they become aroused to the existence of marketing, as opposed to just selling, immediately jump pell-mell into an advertising and/or promotion program. Actually this is the last step needed, not the first. Yet we must remember that if this is the way to initiate and sustain this interest in marketing, it is better to do so and work from the front backwards rather than to kill the interest and fail to sustain the desire to learn more about and participate in marketing.

Also, once in the advertising and promotion area, we need a plan for the campaign of research rather than just isolated attacks. Needed not only is an answer for a single product, but also a research program that will tell us the relationship between a wide array of product characteristics and its degree of potential demand expansion by use of a kit of various potential tools. I, for one, am confident that we can relate a systematic group of input-output variables in this complex field. We not only need to know more of the potential effectiveness of various tools, but also with what intensity to apply them, for preselected target results. Here again, the role of the public agency can be important. These tools are developed often after long and costly experimentation which private agencies generally can ill afford.

Many of the tools now being tested and refined by the Market Development Branch of the USDA and by a number of the university groups are adaptations of tools from other disciplinary fields such as agronomy, biometry, and psychology. The methods are proven and sound. It largely is a matter of research to ascertain how to apply them to market measurement.

I should like also to remark that in some of our concentration upon the measurement of the short-run economics of payouts in advertising and promotion programs, we very likely are overlooking equally important areas. There are many facets to market strategy. The objective of a market promotion program may not be to make profit. Strategy can be

offensive or defensive, retaliatory or a delaying tactic. It can be used to buy time, as it were, while other problems are being recognized and solved. Thus, there are many "side-bar" attributes and benefits.

Two things have stood out in my mind as I have conducted research in and reflected upon this complex area. One, no amount of promotion and advertising can cure a sick market made so by complete disregard of the importance of control of market supply within reasonable limits. This is a lesson we have not yet taught to some of even our most advanced commodity marketing groups. The Florida citrus producers are one example of the latter. My Texas onion producers are another, but a fledgling group. Yet our lettuce growers are aware of this and plan accordingly. This opens the whole area of supply management which for time's sake must be left aside.

Another "side-bar," if you please, of advertising and promotion experiences is the lesson it early and clearly teaches that it is difficult to promote just a "me too" average product. This leads, in my judgment, to the most important contribution of advertising and promotion: "new" product development. New, of course, is in quotes, but here lies a tremendous consumer benefit of such activity--virtually an economic development system which probably most defies definitive measurement.

Finally, there is the serious problem of "tooling up" to meet the challenge. In a number of cases, administrators themselves understandably lack a sufficient comprehension of marketing. Land-grant universities, in particular, are inclined to be directed by former physical scientists. Even the agricultural economics departments are, to varying degrees, still wedded to the structure of commodity marketing men rather than to the generalists or functional research approach. At least a combination of the two concepts must be implemented if reasonable progress is to be made. The cotton, grain, livestock, fruit, and vegetable marketing man concepts must be largely abandoned as the total sine qua non of marketing research. They represent only one facet of the total market approach. Standing alone, unfortunately, generally results in the old "farm gate" view and limitation to research activities.

One serious handicap is the limited nature of the marketing training even yet provided by the responsible agricultural colleges in the universities. Courses are primarily embedded in descriptive treatments of market structure cooperatives, bargaining methods, market orders, time series data analysis, and so on. The viewpoint naturally becomes one of how to divide up what you have rather than how to affect the size of the total pie in the first place.

Emphasis instead needs to be shifted, at least in equal weight, to market analysis methods, product development, packaging, pricing dynamics, advertising and promotion concepts and tools, social and individual behavioral psychology, and marketing case studies.

By the use of a creative approach to marketing problems for agricultural products, much can be accomplished by public research agencies and groups in assuming their proper role in all phases of the agricultural product marketing task. To the extent that we merely analyze existent market structures and calculate largely historical statistical demand and cost functions, the role and scope of contribution of public agencies to solving marketing problems is severely limited.

The Role of Public Research, Extension, and Market Service Agencies
in Market Development and Agricultural Promotion Programs as Related to Extension

by

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U.S. Department of Agriculture

It has, indeed, been a pleasure to share these three days with you and now it is a pleasure to discuss the role of the Cooperative Extension Service in market development and agricultural promotion programs.

My remarks will be oriented primarily to those of you representing commercial groups involved in the promotion of agricultural products.

Actually, it seems to me that in many instances all three groups (research, State departments of agriculture, and extension) can make their greatest contribution by working together on problems of mutual concern. Often, the work of one group can complement the work of the other two, and vice versa.

Perhaps this can best be illustrated by using an analogy. Picture, if you will, a table with three legs. The table top might represent market development and promotion work carried on by commodity groups, co-ops, and others. This table is supported by three legs--each one is essential, and the table will collapse if anyone of them is weak or absent.

- One of these legs might represent research (including USDA, State experiment stations, and private research).
- One leg might represent State departments of agriculture.
- The other might represent the Cooperative Extension Service.

In a broad sense, the Cooperative Extension Service is concerned with educational processes by which people gain an understanding of their marketing problems, evaluate alternative courses of action, make decisions, and take action. It is not Extension's job to make decisions for people, but rather, through the process of education, to assist people in making knowledgeable decisions.

The Cooperative Extension Service has over 500 State extension marketing specialists who serve as the educational arm of the USDA and the land-grant colleges in working with producer groups, marketing firms, and consumers in the identification and solution of marketing problems.

One of our basic functions is that of extending the results of research and relating research needs to research workers. Our market development work is a fairly new phase of extension work.

For a number of years we have received numerous requests, especially from commodity groups, for assistance relative to advertising and promotion of agricultural products. Since very little had been done by Extension in this area of work, the Federal Extension Service decided to develop some educational materials which might be used by State extension marketing specialists in assisting commodity groups and others in their advertising and promotion decisions.

Since it was deemed desirable to do this as soon as possible, we decided to contract for these materials. We contracted with Purdue University to develop these materials. They include:

- A. An annotated bibliography, including a discussion of major promotional problems and sources of information aimed at solving these problems.
- B. Guidelines for Advertising and Promotion of Agricultural Products.
 - 1. Guidelines for appraising the promotion opportunity (involves consideration of 16 important factors that should be considered).
 - 2. Guidelines to effective advertising and promotion of farm products.
 - 3. Evaluation of promotional effectiveness.
 - 4. Complementary activities for expanding markets and net returns.
 - 5. Other related subjects.

These may be obtained from my office. Single copies are free; additional copies are 75 cents for the "Guidelines" and 35 cents for the bibliography.

- C. Program guides for extension workers to use in assisting commodity groups and others in the use of the other materials.

In a subsequent contract with Purdue, we have arranged for Ed Dailey (who had the major responsibility for developing the educational materials under the previous contract) to further test and refine these educational materials through pilot educational programs with agricultural industry groups, and train State Extension Service personnel in conducting educational work relative to the promotion of agricultural products.

Requests for Mr. Dailey's assistance should be sent through your State Extension Service. Travel and per diem are to be assumed by the requesting State Extension Service of the organization with which work is conducted.

Our experience to date indicates that the use of a systematic analysis of pertinent factors related to the successful promotion of a product has been very helpful in the identification of some critical and basic marketing problems not previously identified.

As I pointed out earlier, in many instances assistance is needed by industry groups from all three of our groups (research, State departments of agriculture, and extension). There are many examples of how these three groups have worked together to better serve producers, marketing firms, consumers, and related groups. For example, in July, the Virginia Extension Service and Virginia State Department of Agriculture are co-sponsoring an advertising and promotion workshop in Virginia. Pete Henderson will be representing research.

In developing this close working relationship, we have found the statement developed by the three marketing advisory committees of the State experiment stations, State

extension services, and State departments of agriculture very helpful in delineating the specific responsibilities of each group relative to the solution of marketing problems. This statement sets forth rather clearly the contribution expected from each group.

Because of the importance of this work, and as a result of increasing requests for assistance, we expect to place increasing emphasis upon work with commodity groups and others interested in the promotion of agricultural products.

To the extent of our available resources, we will be glad to provide assistance to you in any way we can.

The Role of Public Research, Extension and
Market Service Agencies in Market Development
and Agricultural Promotion Programs as Related to Market Services

by

J.F. Bennett, Deputy Director
California Department of Agriculture

I was quite pleased when Jimmie Hillman first contacted me with respect to the workshop which the group here has engaged in for the past several days. Many of us in California agriculture have been concerned with the subject of how to evaluate the rather substantial expenditures of monies which are being made in the field of advertising. We have, of course, worked with some of you who are equally concerned with this question.

This subject needs attention, both by industry groups who are spending monies on industry promotional programs, and by private groups spending monies on individual brand promotion. The dollar expenditures in California are substantial. We in the Department of Agriculture are involved in expenditures of more than \$10 million per year. Individual brand groups are spending much more. I am also aware that one group, the Florida Citrus Commission, which is on an industry program having government affiliation, is spending more than \$15 million per year.

I wish to point out, however, that concern with the problems of evaluating the expenditure of advertising dollars is in no way peculiar to the field of agriculture. The expenditure of dollars in the field of advertising raises the same question, whether it be in the chemical industry, in the motion picture industry, or in agriculture.

One might ask about the presence of governmental agencies in this field of promotion, and I would like to review briefly with the group the circumstances which put the California Department of Agriculture into this field.

Here in California we have legislative authority for an agricultural industry to institute and adopt a program in which all people in the industry must participate. These programs were authorized so that people jointly could take certain actions which they could not undertake as individuals. The programs also permit industry members to do legally what they could not do without some governmental blessing and supervision. The purpose of a program is to permit an industry to take actions which will improve its economic returns, so that enough producers can be kept in business to supply a sufficient amount of the product to meet market needs over a period of time. This device, called a marketing order, was developed primarily by the cooperative marketing organizations of California in the early 1930's.

If California industries face problems which can logically be solved by a total industry approach, then the normal process is for them to discuss the subject with some of the members of the Department's staff. Our function is to review the subject, and see if the problem fits the authority which is granted under the statute. If we are dealing with promotional proposals, there are some basic questions which obviously must be considered. These would include the possibility of success of a promotional program. Is the product one which can be identified by the buyer? What expenditures of money would logically be required in order to achieve some degree of success? Are

industry conflicts involved? Would the proposal pull the industry together, or would it tend to divide the industry?

Assuming that the answers to these questions indicate that the proposal is reasonable and would tend to achieve the desired purpose, the formal steps are taken to institute a program. Industry approval by a majority (by numbers) of producers, and by producers of a majority of the product is required before official approval is obtained. Once a program is approved, the operating phase is vested largely in an industry advisory board.

Over a period of time we have learned that there are certain steps which must be taken in order to improve the likelihood of a program's success. These steps include the development of a written plan for rather short periods of time, indicating the particular target objective that is to be attained either during a marketing season or during a portion of a marketing season. We request an exact outline of the activities which will be carried out in reaching the target area. We expect a financial plan of operation, so that the dollar expenditures are tuned to the requirements of the plan. We review the expenditures as they are made, to be certain that we follow the plan as developed. Hopefully, we review the subject of the plan, to see that we have reached some approximation of the target area.

The fundamental position of the Department of Agriculture is to see that the industry stays within the legal bounds, and within the reasonable economic limitations which are established in the development of the plan. Our principal concern in carrying out our job is in making a finding that a proposal by an industry board is necessary and proper, and that it will tend to achieve the declared intent of the legislation; that is, that it will tend to keep in business enough of the producers to supply a sufficient amount of the product to meet the requirements of consumers.

In dealing with this legal requirement we do have some measures which can be applied to give indications of the likelihood of the proposal's success. In the larger programs, these measures can be more sophisticated. In the smaller programs, obviously the dollar limitation prevents the use of survey and opinion measures that in truth might be most informative. We do know that by checking industry people we can get some indication of the success of a program. Obviously, however, these measurements are rather subjective and not too precise.

Again, to reiterate, our tools are no better in agriculture than they are in any other general line of activity. This is particularly true when we are measuring the total industry response to a program.

We are not here concerned with a share of market, or competition between segments of the industry. Government agencies are looking at exactly the same problems as are others dealing with the evaluation of promotional expenditures. The research agency, the extension service, industry executives, and advertising agencies all would like to have a more precise and objective method of measuring the results of an advertising program. The producer of a raw agricultural product is no better nor worse off than the cannery selling a finished canned goods. General Motors and General Electric have problems identical to ours in agriculture. At the moment the evaluation is largely a judgment decision, based on an appraisal which has no precise limits or guidelines to explain the dollar returned for the dollar expended.

We in agriculture must continue to strive for better tools to work with in this field. In doing so we should be continually looking at what other groups are doing. They may be the ones who will first make the breakthrough to give us an answer to this age-old problem. In the meantime, however, we must continue our own efforts, for we may be the ones to provide the tool that will be utilized by the rest of the business economy.

The Role of Public Research, Extension, and Market
Service Agencies in Market Development and Agricultural
Promotion Programs as Related to a Farm Cooperative

by

A.L. Buffington, Diamond Walnut Growers

I think that this is an interesting topic in that it singles out farmer cooperatives as a type of business enterprise which traditionally has been particularly active in utilizing the assistance of governmental agencies. This is probably a reflection of the position cooperatives occupy in our society, in that they are fostered by governmental policy in terms of taxes and in many ways receive preferential treatment, almost as if they were wards of the Government.

At the same time, cooperatives, by their very nature, tend to be run by the membership or by committees made up of the membership and, with this type of handicap, need more than the average amount of assistance. I suspect that farmer cooperatives utilize the services of these governmental agencies to a greater degree because of the nature of the product they are attempting to market. Agriculture faces a chronic oversupply situation, the membership of the cooperative traditionally is in a poor bargaining position, and in many cases the management of the cooperative is understaffed because of the inability of the membership to appreciate the problems facing the organization. Under these circumstances, a cooperative needs all the help it can get.

I think in general there are three criteria that can be applied to the role of governmental agencies in performing market development and promotion functions for these cooperatives.

First, does it benefit the Nation as a whole? Is it a project which favors the public good?

Second, does it benefit the entire industry rather than a segment of an industry? Obviously, it would be a perversion of the purpose of a governmental body to provide free research functions to an individual company.

And lastly, is the project one which could not or would not be attempted by an individual company or even by an industry as a whole?

In evaluating the role played in our own operation by the various governmental agencies with which we are in contact, I think that these criteria can be applied and an affirmative answer given.

In general, the University of California, through its many campuses, has been extremely active in the development of varieties which will more nearly suit the demands of the consuming public and can return more money to the grower. I don't believe these varieties would have been developed by individuals, and certainly the various segments of the industry would never have gotten together on such a program.

Also, the Giannini Foundation has been extremely helpful to us in developing statistical quality control and in attempting to evaluate those factors which make our product desirable to the consumer. Again, this is a project we were simply not

equipped to undertake. We have no Ph.D.'s on our staff, nor could we keep one busy. At the same time, this is a long-range project, and I don't think our company or any individual company would have financed such an effort.

We are entirely dependent upon the Federal-State crop estimating service which has a profound effect upon our marketing efforts; without it we quite frankly would be lost, and chaos would shortly result due to our inability to gage and manage the total inventory.

The walnut industry operates under a Federal Marketing Order administered by the Walnut Control Board. Under this order we have the right and the ability to manage the industry's inventory and its marketing program. Quite obviously, a group of companies in bitter competition with each other could never get together and establish such a program alone, even if it were legal to do so.

We have recently been working with the Foreign Agricultural Service on a series of market surveys to determine the extent and nature of our overseas market. We are attempting to find those areas where we could profitably market, the nature of the package and other characteristics required by the consumers in these areas. Again, this is an industry effort developed under the auspices of the Walnut Control Board, which, of course, is a creature of the marketing order. This project is financed partially by the Control Board and partially by the Foreign Agricultural Service. Needless to say, no industry effort of this type would ever occur without the good offices of these two good agencies.

Under these circumstances, the role of public research agencies, in the operation of our cooperative, is obviously of tremendous importance. Without them we would be badly handicapped, and I rather strongly suspect the walnut industry would not be as prosperous or as progressive as it currently is. In short, we feel that these agencies are of vital importance to us and we do our best to make use of the help which they are equipped to offer.

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